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UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

EDITORIAL

Marginalization or development?

There is a growing concern over the dangers of the further marginalization of many low-income countries (LICs), particularly in Africa, from the mainstream of international trade and the world economy. The problem will be compounded if, in addition to those countries' own efforts, external support to the region is not increased on a massive scale. But they need not necessarily be marginalized if certain conditions are met.

To develop their economies and expand their exports, LICs should diversify into production and exports of non-traditional products, particularly manufactured goods. Rapid expansion of the supply capabilities in manufactured goods requires tackling structural and institutional obstacles, which would not be feasible without deliberate measures undertaken at the national and international levels. The need for such measures is felt even more as a result of the weakened competitive position of LICs in international trade, resulting from recent changes in the international economy. These changes are related to new forms of international competition arising from increasing regionalism and liberalization of international trade through the Uruguay Round. These factors together will lead, on the one hand, to the intensification of competition for manufactured goods in the international market in terms of both price and product quality. On the other hand, they will result in market concentration in favour of global firms, thus rendering enterprises in countries such as those in sub-Saharan Africa—hereafter referred to as "Africa"—more vulnerable.

To explain these changes briefly, globalization and flexible specialization are two new forms of industrial organization in the world economy. In the former case, large global firms attempt to reduce their costs of production, R&D, marketing, distribution, product development, design and input procurement through the creation of international networks. Accordingly, firms would cooperate through sourcing, subcontracting, technology alliance and supply contracts for the provision of inputs and intermediate goods, but compete in the market for final products. In the case of flexible specialization, the emphasis is on innovation for rapid adaptation to changes in the market. Here, small- and medium-sized firms exploit their advantage in *strategic thinking* rather than *strategic planning*, which is common in the case of global firms for production of differentiated goods. Accordingly, while globalization emphasizes cost reduction through economies of scale and mass production, flexible specialization stresses product-led competition and speedy production, fast delivery and cost reduction through capacity utilization.

Africa is not in a privileged position to integrate into the world economy easily through either globalization or flexible specialization. Globalization requires, *inter alia*, sophisticated technology and capital; flexible specialization also requires sophisticated technology and highly skilled labour, in which Africa lacks competitiveness. Globalization is based mainly on the expansion of intra-industry trade, that is to say trade in intermediate inputs, parts and components and sourcing in technologically sophisticated goods (except for textiles). Even in this case, sourcing requires exploitation of information technology and availability of physical and institutional capacities. Hence, it is no surprise that in the globalization process Africa has not been attractive for expansion of intra-industry trade. Neither has Africa been in a favourable position to attract foreign direct investment (FDI) for the expansion of inter-industry trade. A minimum level of development as well as a viable physical and institutional infrastructure seem to be the main prerequisites for integration into the world economy.

Moreover, without a targeted trade and industrial policy to enable Africa to compete in the internal and international markets, the independent development of an infant industrial base in that area would not easily be feasible without international support, for the following reasons:

First, globalization weakens the competitive position of firms not involved in such a process in terms of both costs and product attributes. Secondly, globalization increases the risk of mounting protectionist pressures in developed importing countries targeted not only for technologically advanced products, but also for labour-intensive industries. Thirdly, the growing tendency towards regionalism intensifies the competitive position of members of the trading blocs at the cost of non-member countries. Moreover, apart from the risk of being excluded from the main trading blocs, Africa seems to run two other risks: one is the partial loss of preferential margins; another is the risk of conflicts among the trading blocs having an effect on third parties—particularly the weaker ones.

Finally, Africa and other low-income and least developed countries benefit less than other developing ones from the outcome of the Uruguay Round; in fact, analysis demonstrates that, at least in the short run, they risk being losers.

Nevertheless, such a pessimistic view of the marginalization of these countries may not materialize if combined internal and international efforts could be made for their development. The main factors required for their development are: a

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GLOBAL LEADERSHIP AFTER THE COLD WAR

Boutros Boutros-Ghali

Boutros Boutros-Ghali, Secretary-General of the United Nations, recently published an article in *Foreign Affairs*,[1] in which he analyses the dialectic nature of globalization and introduces the notion of political and economic fragmentation. Moreover, he lays out the contours of a modified and more focused role for the United Nations system—one which draws on civil society as a new actor and is characterized by efficiency, independence and stable sources of finance. In view of the direct relationship of the article to the theme of UNCTAD IX, a number of extracts from the article are highlighted here.

On the challenges of globalization and the role the United Nations can play, Dr. Boutros-Ghali notes:

> "As the 21st century approaches, the planet is in the grip of two vast, opposing forces: globalization and fragmentation. Globalization is creating a world that is increasingly interconnected, in which national boundaries are less important, and it is generating both possibilities and problems. Alarming environmental developments expose the earth to permanent damage and spur massive human migration. Transnational criminal activity grows. Even the spread of communication technologies, which has produced so much good, engenders pressures that our institutions were not designed to address.
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> And then there are the forces of fragmentation. Rising insecurity and unmet needs are leading people to seek refuge in smaller groups. This tendency can promote the healthy growth of civil society, as evidenced by the burgeoning of citizen groups and non-governmental organizations acting in pursuit of public purposes. But fragmentation can also breed fanaticism, isolationism, separatism, and the proliferation of civil conflict.
>
> ... The United Nations can help deal with the challenges that globalization and fragmentation pose.
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> ...
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> The Secretary General has the overriding responsibility to heighten international awareness that the immensely powerful and potentially positive process of globalization brings with it some major problems. Globalization, largely an economic phenomenon, is failing to reach all peoples. Too many are excluded, unable to obtain access to the prosperity it offers. At the same time, the market economy that is the engine of this movement is, by its very logic, driving large numbers of people—in developing, transitional and developed countries alike—into deeper poverty and despair.
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> ...
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> The Secretary-General also has a responsibility to take a public stand on another product of fragmentation, which I have named 'orphan conflicts'. The forces of fragmentation can cause a State—particularly the poorest ones—to fail, leaving its people without a government to protect them from chaos. The ethics of the modern world have stressed the dignity of the individual, the equality of States, and the need for universal principles of justice, but the reality is too often otherwise. Lives lost in one place seem to matter more than lives lost in another. War in one country may get enormous attention, while war elsewhere may be virtually ignored. Violations of the rights of one people arouse far more concern than violations of the rights of another. These latter conflicts are orphans, deprived of international attention, concern, and effort. They demand and deserve that the international community commit the needed political, financial, humanitarian, civil, and, in some cases, military resources."

The essay embraces the emergence of civil society as a new and creative actor in the international arena, and delineates a division of responsibility between exponents of civil society and the United Nations system proper:

> "Regional arrangements, non-governmental organizations, parliamentarians, transnational business, academic and policy research institutions, the media—all are taking on greater global roles. Their collective impact on world events now surpasses that of traditional international structures. As civil strife and social disarray undermine the authority of the State, these new networks of new actors also erode it. Although one of the major tasks of the world organization of sovereign States is to support the State, the Secretary-General and the United Nations must also help these new actors find their places within a coherent international community of the future.
>
> ... the Secretary-General can collaborate with non-governmental organizations and international business.
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> ...
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> ... United Nations operations bring a political dimension to what has thus far been the predominantly economic character of globalization. All these U.N. attributes are giving meaning to the concept of the international community, now being defined for the first time in history."

Addressing the current financial crisis of the United Nations system, the Secretary-General summarizes the increasing demands made on it and presents ideas on new funding mechanisms for the Organization:

> "Three areas require action: emergency financial measures, organizational reform, and the search for long-term financial stability.
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> ...

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[1] "Global Leadership After the Cold War", *Foreign Affairs*, March/April 1996 (pp. 86-98).

In view of the importance of the United Nations for the future of human security in all its dimensions, it is reasonable to contemplate the creation of some procedure by which the Organization could regularly collect a relatively small amount from one of the many daily transactions of the global economy. Measures for consideration could include a fee on speculative international financial transactions[2] or a levy on either fossil fuel use or the resulting pollution; the dedication of a small portion of the anticipated decline in world military expenditures or the utilization of some resources released by the elimination of unnecessary government subsidies; a stamp tax on international travel and travel documents or an assessment on global currency transactions."

Beyond financial reorganization, Dr. Boutros-Ghali reiterates the need for a comprehensive reform of the United Nations intergovernmental machinery:

"The main arena for reform, however, is the intergovernmental machinery of the United Nations. The objective must be not only to gain greater efficiency but to promote the democratization of the United Nations System. The composition of the Security Council, and its relationship to the other principal organs, will be at the heart of this endeavour. The decisions are for the Member States to take; indeed, the Secretary-General is properly constrained from speaking too specifically on this question. But now and in the years to come, among the Secretary-General's priorities must be the promotion of democratization within both the United Nations and international relations as a whole."

In closing, the essay reaffirms the need for an independent United Nations:

"The key to this future is credibility. Nothing is more precious to the United Nations than its reputation. That reputation rests on four pillars: impartiality, equity, efficiency, and achievement. A fifth, indispensable principle is independence. If one word above all is to characterize the role of the Secretary-General, it is independence. The holder of this office must never be seen as acting out of fear of, or in an attempt to curry favour with one State or group of States. Should that happen, all prospects for the United Nations would be lost. ... [The Secretary-General] must be prepared to resist pressure, criticism, and opposition in defending the Charter's call for all Member States to respect the 'exclusively international character of the responsibilities of the Secretary-General and staff and not to seek to influence them in the discharge of their responsibilities'."

[2] *For an expansion of this proposal, see the summary article by David Felix in this issue.*

EDITORIAL

(continued from page 2)

viable infrastructure; human resources development through education and training; and accelerating investment in supply capacity. Although efforts to increase the level of domestic savings are essential, they are not adequate. The majority live at subsistence levels with a per capita income of between $1 and $2 a day, leaving little room for additional savings. FDI could play a significant role on the supply side of capacity-building. In order to attract FDI, a viable and efficient investment guarantee facility to protect against possible risks is required in addition to the above conditions. Concessional aid and debt-forgiveness are indispensable. At the national level, raising the capacity of governments for policy-making and provision of a stable macroeconomic environment for growth is essential.

For Africa, urgent action is especially necessary, without which, as stated by UNICEF, "the human foundation for Africa's progress in the twenty-first century will not exist".

UNCTAD IX

Programme: highlights

UNCTAD IX will take place in Midrand, South Africa, from 27 to 11 May 1996 to "promote growth and sustainable development in a globalizing and liberalizing world economy".

Most of UNCTAD's 188 member States will be represented at the ministerial level. More than 2,500 participants are expected to attend this major international conference.

Inaugural session

Boutros Boutros-Ghali, Secretary-General of the United Nations, is expected to open UNCTAD IX on 27 April. Nelson Mandela, President of the Republic of South Africa, will address the opening session, followed by the Secretary-General of UNCTAD, Rubens Ricupero. A certain number of Heads of State or Government (to be confirmed) will address the inaugural session.

In the afternoon of 27 April, a round table on "The excluded two billion integrating people in the global economy", presidad over by Dr. Boutros-Ghali, will gather executive heads of international organizations.

The Conference proper will begin with the election of its President, the Minister of Finance of the host country.

REPORT OF THE SECRETARY-GENERAL OF UNCTAD TO THE NINTH SESSION OF THE CONFERENCE

The Report of the Secretary-General of UNCTAD to the ninth session of the Conference, to be held in Midrand, South Africa, from 27 April to 11 May 1996, was released to governments at the end of January as a contribution to their preparatory discussions on the issues before the Conference. The report (TD/366) is a working document, offered as a contribution to an ongoing process of reflection, particularly as it concerns the future work of the organization. The report contains four chapters. Chapter I deals with trade and development in a liberalized and globalizing world economy. Chapter II concerns the promotion of international trade as an instrument for development in the post-Uruguay Round world. Chapter III deals with promoting enterprise development and competitiveness in developing countries and countries in transition. Finally, chapter IV includes some personal reflections by the Secretary-General on the future work of UNCTAD in accordance with the institutional implications of its mandate. This article briefly summarizes some of the main ideas expressed by Mr. Ricupero in this fourth and final chapter.

With the fall of ideological walls, convergence has taken the place of confrontation. On the other hand, competition and trade frictions, once moderated by national barriers and regulations, have been exacerbated to a level never previously seen. Unrestrained or unattended to, these frictions might one day jeopardize or reverse the progress achieved so far.

Paradoxically, globalization is proving to be a powerful force for both integration and marginalization. For the first time in history, it promises to bring millions of people in the fast-growing developing countries into active participation in the world economy. At the same time, hundreds of millions of other individuals fear that the same forces threaten to shut them out from the promise of prosperity. They are the poor and jobless in many developing countries, particularly in Africa, that depend on the export of a few commodities, barely benefiting, if at all, from these twin forces of globalization and liberalization.

In this intermediate state between the old and the new, UNCTAD has been undergoing what might be considered an identity crisis, as it struggles to find its compass bearings in a fast changing world. As we go about the process of reforming and redefining UNCTAD, we should not lose sight of the fact that its sole claim for continued existence is its ability to make a relevant contribution to the tasks of fostering growth, reducing inequality, and building its capacity to make a difference to people's lives.

At UNCTAD VIII, held in Cartagena de Indias (Colombia) in 1992, the accent was shifted to the new notion of partnership and cooperation for development. This was made possible not so much on the basis of a conceptual platform but rather in response to the exigencies imposed by a complex and emerging reality. The persistence of extreme poverty and growing inequality, together with the proliferating risks of marginalization and environmental destruction, rendered cooperation a *sine qua non* for meeting the challenge of globalization.

Since Cartagena, a shared perception of the nature of prevailing economic conditions has begun to assert itself. It recognizes the role of the market and of private initiative as the dynamic agents of an expanding economy, without loosing sight of the determining influence of good governance and an efficient but reduced State; it lays stress on the ultimate responsibility of each country and of each government to create the political and macroeconomic conditions for stability and progress. At the same time, it recognizes the importance of the external economic environment, which can provide countries with open and competitive access to the basic elements of sustainable development, i.e. markets, financing, investment, technology, and financial and technical assistance. These elements constitute, as always, the fundamental priorities of UNCTAD's work.

To understand and explain how these elements will interact in an increasingly globalized economy will remain the central aim of UNCTAD's research and analytical effort. Analysis and conceptual explanation are not, however, ends in themselves. They should be viewed from the perspective of their usefulness in helping to promote development. This is why the analysis must be action-oriented in two complementary directions. The first is the preparation of the multilateral agenda for future negotiations on trade, investment, competition, environment and technology. Here, the specific contribution of UNCTAD will be to provide a development perspective, one which will balance the overall picture, by taking into account the needs and interests of countries at different stages of integration into the world economy. This work will be pursued in a cooperative and complementary manner with that of other international institutions, among them the World Trade Organization.

In order to complement the agenda of negotiations, the second line of UNCTAD's activities should be directed at helping countries to implement the results thereof. The goals here would be to make the best possible use of opportunities created in trade (working through the programmes of trade efficiency, TRAINFORTRADE and ASYCUDA, among others); to promote investment (through a possible multilateral framework and individual country profiles, for example); to provide technical assistance to governments interested in designing competition laws; to advance positive incentives for environmentally friendly development; to conduct reviews of national policies on science and technology.

The Secretary-General then refers to the future work of UNCTAD and says that, in pursuing inter-

governmental discussion on this aspect, attention should be given to a number of considerations:

(a) There is a need for fundamental change in the manner in which UNCTAD goes about fulfilling its mandate in trade and development;
(b) UNCTAD's activities should be more sharply focused on a relatively small number of issues of central importance to development on which it can make a substantial effect;
(c) The work of UNCTAD should increasingly take account of the present diversity of development situations and problems. In considering such diversity, the distinction between those developing countries requiring assistance primarily in securing access to globalizing markets and those countries requiring assistance primarily in creating and expanding capacities to supply goods to those markets is of particular importance;
(d) UNCTAD will need to keep under review the evolving phenomena of globalization and interdependence, and to assess broad development issues against this background. It will also need to assess the implications for development of the evolution of the systems that govern international transactions and seek to promote an evolution of those systems that is "development friendly". Consensus-building is a concept of particular importance in such activities;
(e) UNCTAD should intensify its specific activities that have a direct effect on national economies, particularly in the areas of trade, investment and enterprise development. These activities include, but are not restricted to, technical cooperation;
(f) The intergovernmental machinery of UNCTAD needs to be tightly structured, yet sufficiently flexible to accommodate a wider range of intergovernmental interaction than in the past.

One of the major new developments in international relations in these closing years of the twentieth century has been the emergence of a range of non-governmental actors that exert a growing influence on world affairs. Transnational corporations, both large and small, private investors, non-governmental organizations, universities and research centres are leaving their mark on the shape of things to come. By and large, multilateral institutions have so far failed to give these new actors adequate room to express themselves and to make their weight felt. A space for the participation of those individuals, producers and consumers alike, who will put into practice the decisions on production and consumption formally arrived at by governments should be provided in multilateral economic forums. This is an extremely complex and difficult subject, on which simplistic solutions will not do. Nevertheless, it is to be hoped that in the near future we shall be far-sighted enough to begin the integration of the private sector and of other new actors in UNCTAD's daily operations. By acting along these lines, we could help to convert a conference into a real partnership for development, making UNCTAD a model of what a truly international agency of the twenty-first century should be.

The Secretary-General concludes his report by saying that "We should never lose sight of the fact, however, that the only justification for UNCTAD's regeneration and its sole claim for continued existence is its ability to make a relevant contribution to the tasks of fostering growth, reducing inequality, and building its capacity to make a difference to people's lives. This has to be especially true in the case of those who need UNCTAD most, the least developed countries—so many of which are in Africa—where our Conference has a duty to offer them concrete and effective solutions to their problems".

UNCTAD will ultimately be judged according to the attention that it pays to Africa and the least developed countries. Poverty and deprivation are the central problem, the major challenges ahead of us. The problem is not new, but its circumstances are. For while globalization renders deprivations intolerable, it may for the first time show that the problem is mature for a lasting solution. We must hope that the benefits from a global economy will more than match its costs and that the net balance will be enough to eradicate poverty and human underdevelopment.

FINANCIAL GLOBALIZATION VERSUS FREE TRADE ... *(continued from page 12)*

are manageable. Most foreign exchange dealing is by large financial institutions, whose operations are already closely scrutinized by the monetary authorities of the jurisdictions within which they operate. Moving full operations to a non-cooperating jurisdiction, as distinct from merely booking deals developed at home at an offshore office, is very costly and risky, while preventing the use of offshore booking addresses to evade the tax is well within the power of the home monetary authorities. The revived scope for domestic counter-cyclical policies provided by the Tobin tax would elevate output and employment levels in the medium term. This would ease pressures for import protection and perhaps also create political momentum for tackling the more ambitious coordination problems that the broader stabilization proposals entail.

Developing countries would benefit directly and indirectly from a global Tobin tax. Direct benefits include curbing volatile portfolio capital flows, notably speculative arbitraging on interest rate differentials and the excessive cross-currency portfolio shifting of open-end "emerging market" mutual funds. The main indirect benefits would be derived from the return of the industrialized countries to full employment growth that the Tobin tax makes possible. That would mean not merely faster growing demand for third world imports and reduced protectionist pressures in the industrialized countries, but also an easing of their aggressive push for access to markets in technologically backward developing countries, whose social and economic development would benefit from a more measured pace of market liberalization. Along with supporting Tobin's tax proposal, developing countries should also support his suggestion that a slice of the tax revenue be earmarked for international agencies that fund projects of high socio-economic benefit to third world countries, but whose market payoff is too low to appeal to private capital.

UNCTAD'S ACTIVITIES IN THE AREA OF COMMODITY PRICE RISK-MANAGEMENT AND STRUCTURED FINANCE

A. Commodity price risks: the problem

UNCTAD started working on commodity risk-management a few years ago with the aim of building up its capacity in this area, so that developing country commodity producers would be able, where applicable and feasible, to hedge against the risk of commodity price instability. The work of UNCTAD consists of analysis, advisory services, training and technical assistance.

Commodity price risks lead to an uneven playing field for commodity production and trade. Commodity prices fluctuate greatly—much more so than exchange rates or interest rates. These price fluctuations create risks. For example, investors in a new mine, oil-well or plantation cannot be sure that the expected output will earn sufficient revenues to pay back their investment; traders do not know whether they will be able to sell at a profit the commodities they bought; governments which rely on taxes on commodity exports cannot plan their budgets. This uncertainty involves economic costs: among other things, investment projects are held back; commodity storage facilities are discouraged, amplifying seasonal price movements; traders are obliged to build risk premiums into their margins, which increases the cost of trade; and governments may be forced to make costly adjustments in their operations when earnings fall short of expectations. Fortunately, many commodity price risks are manageable.

Hence, risk-management allows better planning for budget and investment decisions as well as for marketing. In most countries, the prices for key commodities, particularly for those exported, follow closely the prices set on international commodity exchanges (for an analysis of various risk-management instruments, see document UNCTAD/COM/15, and for a critical discussion of the exchanges, see the appendix to UNCTAD/COM/16). A trader who wishes to ensure that the coffee stock he is accumulating can be sold at a level no lower than that of today may buy options on the London or New York coffee exchange; a government which relies on taxes on oil exports can, through the use of a choice of risk-management instruments, ensure that its income over the coming year or years will not be lower than that foreseeable today. Similarly, in all cases where there are limited funds for essential imports (for example, grains or fuels), importers take current prices to estimate the budget needed to cover the anticipated physical requirements. Longer-term risk-management markets can be used to make investments safer, thus reducing costs. In terms of marketing, in this time of increasing integration of the world market and reduction of subsidies, the producers of tomorrow will need to have access to the full spectrum of financial techniques to be able to compete internationally.

Price risks should not be borne by the weakest parties. Until recently, most price risks (at least in the short term) were borne by governments and, to some extent, consumers. Now, in most developing countries both export trade and domestic pricing for export crops have been liberalized (UNCTAD's programme in this area is partly a response to this development). Farmers who were previously insulated from the vagaries of the world market must now carry the full burden of continuous adaptation to changing world market conditions. Similarly, small traders are exposed to much larger price risks than before. On the distribution side, governments have often given up their efforts to stabilize the prices of key import commodities such as fuels, grain and sugar, thereby shifting the burden of price risks onto consumers (see the appendix to UNCTAD/CCP.GR 95/4). Clearly, if ways could be found to protect these weak groups from unduly large price fluctuations without throwing the burden back onto the government, this would be both socially and economically beneficial.

B. Barriers and problems to be overcome

Modern risk-management and financing tools are relatively little used by developing country governments, producers, processors and traders. Even if they are aware of the existence and potential benefits of using risk-management instruments, they face a number of obstacles in accessing the markets (see TD/B/CN.1/10). One of these is the lack of training on the intricacies of market-based risk-management. To counter this, the Commodities Division, in cooperation with the TRAINFORTRADE Programme of UNCTAD and funded mainly by the governments of France, Luxembourg, Switzerland and the European Union, has developed a computer-based training programme on futures and options trade, which has been used in many training seminars in Africa, Central America and South-East Asia. Another problem is the lack of finance with which to use risk-management markets (as analysed in document TD/B/CN.1/GE.1/2, where possible solutions are provided). However, a poor institutional and regulatory framework is yet another problem (see TD/B/CN.1/GE.1/3 and UNCTAD/COM/56). This is one of the themes of UNCTAD's technical cooperation work, with projects in a series of countries on the potential role of farmers' associations and banks and on legal/regulatory systems.

The government can play an important role in establishing a proper legal and regulatory framework, and in stimulating appropriate institutional developments. Governments play a key role in facilitating the

proper use of risk-management markets. They are required to set the regulatory conditions for intermediaries, such as brokers, as without proper brokerage regulations small traders, producers or, for that matter, small speculators can easily fall prey to unscrupulous middlemen. In larger countries, governments primarily determine the extent of local commodity exchanges (an issue covered earlier by UNCTAD/ World Bank work in South-East Asia and discussed, *inter alia*, in documents UNCTAD/COM/64 and UNCTAD/COM/65; the problem is also addressed in a World Bank/UNCTAD project in India). Furthermore, governments set the financial rules which determine the terms of access to foreign currency for using overseas markets and the taxation rules under which risk-management is treated (or not) as a legitimate business activity. In certain countries, governments could also fill the gap in risk-management services which may be left after liberalization of the export-marketing system. Governments could also provide price protection to consumers or producers by price-band policies—keeping prices within a certain band (adapted from year to year) by combining a small buffer-stock with market-based risk-management instruments.

C. The credit issue

Lack of access to credit acts as a barrier to better risk-management. Usually, producing or consuming entities cannot afford to immobilize, for the purpose of managing risks, the convertible currency which they would normally need for upfront payments or maintenance margins. Therefore, as long as they are required to provide all the funds needed to run a risk-management programme, they will for all practical purposes be prevented from operating in risk-management markets.

Access to credit is facilitated by "mortgaging" commodities. Access to finance is a bottleneck for risk-management as well as for trade and investment. There is a relatively straightforward way to enhance such access: the lender can be provided with collateral, to which he has recourse in case the borrower defaults. Counterparty risk is then largely irrelevant, and the resulting reduction in risk allows the lender to provide more credit at better rates. In principle, many forms of collateral can be used, even "revolving assets" such as the payments international airlines make to use a country's airspace, or payments of international carriers for long-distance telephone calls. However, if the financing costs of commodity trade and investment are to be reduced significantly, actions to improve the use that can be made of physical commodities as collateral for loans are pivotal (practical options in this area will be discussed in more detail in a forthcoming UNCTAD paper on "Collateralized commodity finance".

Structured finance: the longer road often turns out cheaper. To enable cheaper loans, a financing transaction normally needs to be "structured". This implies, on the one hand, that arrangements are made to ensure that if the transaction proceeds normally the credit provider is automatically reimbursed (this normally includes price risk-management elements). On the other hand, arrangements are made to ensure that if the transaction goes wrong the credit-provider has recourse to the collateral. He can sell it and get his money back. The savings from improved financing practices can be considerable. It is thus possible to reduce interest rates from more than 20 per cent per annum (as is common in most CIS and many African countries) to less than 10 per cent. UNCTAD's work in this area is quite new and indeed unique. So far, at least one country has been able to benefit from its advice on structured financing techniques.

Institutional and regulatory barriers hinder progress. So far, the use of commodities as collateral for finance has been limited. In developing countries, at the domestic level, most commodity credits are given on the basis of real estate guarantees, which is a somewhat basic and not very flexible way of lending. One reason for this is that the use of commodities for collateral purposes requires a number of fairly stringent conditions—in fact, countries' basic physical, financial and legal structures need to meet a number of minimum requirements. There are also considerable training needs. Even if the necessary warehousing and legal infrastructure were present, the large majority of developing country banks would not have the skills or expertise to set up structured financing operations. Again, UNCTAD is making a start in tackling this problem by the preparation of detailed background material which, resources permitting, is to be followed by training and institution-building projects in a number of regions.

Domestic banks have a natural niche in providing structured finance and risk-management services. Small producers, local processors and traders will in many cases have difficulties to access an international market. They need to pass through a local intermediary. This intermediary could be a broker, a trading company, or even a government agency; but in many developing countries there would appear to be a natural niche here for domestic banks. Domestic banks have the wherewithal to tap foreign financial and risk-management markets, or at least should be able to obtain the necessary skills, communications and analytical tools with relative ease, if an international organization provides the required expertise. Domestic banks can also play a natural role in financing the domestic commodity sector. By building price risk-management components into their financing packages, they can secure loans, enabling them to offer better credit terms to potential customers. This issue is central in two of the components of UNCTAD's technical cooperation work (as financed by the governments of Switzerland and the Netherlands, as well as a number of private-sector donors) on commodity risk-management and finance. Work on soft commodities will be undertaken in East Africa, and a large conference focusing on the interrelationships between oil-marketing, risk-management and finance in sub-Saharan Africa will be held in Harare, Zimbabwe, from 15 to 17 April 1996.

D. Problems of risk-management

It is essential to ensure safe risk-management practices. Price risk-management can bring many advan-

tages; indeed, virtually all major companies in the developed countries use risk-management markets in an active manner. Nevertheless, problems do occur: MG Corporation and Barings are but two of the companies which lost over one billion US$ on derivatives markets—markets that were primarily developed to lay off risks. It is close to impossible for a financial enterprise to fully safeguard against self-destructive action by senior managers. However, if company management wishes to use risk-management markets for risk-management purposes, there is no reason for large losses to occur. There are well-established rules on the ways that companies can organize and implement a control system to stop problems before they get out of hand. UNCTAD will soon be publishing a manual, with cofunding by the Singapore Commodity Exchange, on such prudential rules.

An aspect often overlooked is that risk-management markets, being financial markets, give rise to financial flows and, as in all other cases, that these flows can be manipulated to hide illegal or illicit activities. This should not be a reason to stop or hinder the use of these markets. It only implies that if governments open up the use of foreign risk-management markets to their nationals, they should at the same time develop the capacity to monitor and understand the use that is made of these markets to prevent tax evasion, capital controls avoidance and bribery through the use of risk-management instruments. As virtually no information is publicly available on this issue, UNCTAD is preparing, with the support of the Swiss Government, a manual for government regulators.

E. UNCTAD's role

A wide-ranging agenda of activities is necessary to meet the needs of developing countries and economies in transition in the commodity risk-management and structured finance area. While cooperating whenever useful with other national and international organizations, such as the World Bank, as well as non-governmental organizations, UNCTAD has been, since the early 1990s, the main international organization active in this area, and thus has an important role to fulfil. This is recognized by many countries, as testified by the large number of requests for assistance (many of which have had to be turned down because of lack of resources). Understanding modern risk-management and financing instruments is essential to companies active in today's commodity economy, as without proper understanding, their capacity to plan, invest and market is severely impaired. In particular, the governments of poorer countries—which cannot afford to pay unexpectedly high prices for essential commodity imports, lose tax earnings on key exports or pay high interest rates on their foreign loans—also miss opportunities if they do not avail themselves of what is offered on commodity risk-management and financing markets.

As is the case for any new and complicated trade and financial instrument, one must go through a learning curve to understand the proper use of risk-management and structured finance tools. While ultimately those directly or indirectly involved in commodity production, processing or trade, have their own responsibility for ensuring that they understand the business they are in, the international community (including UNCTAD) has in the recent past provided—as far as possible and given resource constraints—valuable analysis, training and advice. In view of the continuing liberalization and globalization of countries' economies, the importance of this type of support is likely to increase in the near future.

RECENT UNCTAD PUBLICATIONS ON COMMODITY PRICE RISK-MANAGEMENT AND RELATED ISSUES

- A survey of commodity risk-management instruments (UNCTAD/COM/15), March 1993 (English only); UNCTAD/COM/15/Rev.1, December 1994 (English and Spanish)
- Technical and regulatory conditions influencing participation in, and usage of, commodity exchanges by both buyers and sellers of commodities (UNCTAD/COM/16), April 1993
- Contribution to the improvement of the functioning of commodity markets: analysis of ways of improving the efficiency and use of existing mechanisms for the management of risks arising from commodity price fluctuations (TD/B/CN.1/10), August 1993 (all official languages)
- Contribution to the improvement of the functioning of commodity markets: proposals of the Group of Experts on Commodity Exchanges (TD/B/CN.1/10/Add.1), September 1993 (all official languages)
- Risk distribution after liberalization of commodity marketing and problems of access to risk-management markets for developing country entities—illustrated by the case of coffee in Africa (TD/B/CN.1/GE.1/2), August 1994 (all official languages)
- Counterpart and sovereign risk obstacles to improved access to risk-management markets; issues involved, problems and possible solutions (TD/B/CN.1/GE.1/3), August 1994 (all official languages)
- Report of the Group of Experts on Risk-management in Commodity Trade (TD/B/CN.1/GE.1/4), November 1994 (all official languages)
- Legal and regulatory aspects of financing commodity exporters and the provision of bank hedging line credit in developing countries, by Nicholas Budd, White and Case, Paris (UNCTAD/COM/56), February 1995
- Using risk-management in grain trade: implications for developing countries (CCP.GR 95/4), March 1995 (all official languages)
- Guidelines for facilitating access to risk-management markets through the stimulation of local and regional exchanges: the case of cotton in the Near East/CIS/Pakistan, by Sebahattin Gazanfer, Exporters' Union of the Aegean Region, Izmir (UNCTAD/COM/65), September 1995
- Feasibility study on a world-wide pepper futures contract (UNCTAD/COM/64), October 1995
- Minerals and fuels price risks in Southern Africa, and possibilities for risk-management (UNCTAD/COM/69), October 1995

THE ROLE OF THE FIRM IN THE INNOVATION PROCESS

Zeljka Kozul-Wright *

The purpose of this brief is to re-examine the role of the firm in innovation and the interrelationship between innovation and industrial progress. In industrialized countries, the importance of the small and medium-sized enterprise (SME) sector, which is generally the supplier of intermediate parts and components to large firms in many industries, is well recognized as a source of output and employment. Owing to increased globalization, the export potential of SMEs has also been emphasized. However, their role in the technological innovation process is much less appreciated. Standard technology indicators, such as R&D inputs, patents and bibliometric data, continue to understate the innovative activity carried out by small firms. Empirical studies have begun to reveal the significant contribution of this sector to innovation activity. Recent theoretical studies on innovation and technical progress are also contributing to a better appreciation of the role of SMEs. Such studies interpret the process of scientific and technological advance within an evolutionary framework, characterized by "organized complexity" and cumulative changes over time.

Technological progress, in orthodox neoclassical theory, appears as manna from heaven, that is to say an exogenous factor originating from outside the system of production, readily accessible to all firms through their chosen production function, where perfect competition is assumed to provide the best environment for allocating scarce resources, including resources for R&D. Price-taking firms, which are small by assumption, will best ensure the socially optimal results from technological progress.

By contrast, a Schumpeterian approach postulates that large firms tend to be more innovative than small ones. Technical change requires the stability associated with large size, not only to generate the quasi-rents which induce innovation, but also owing to both formalized learning within the firm (R&D) and the greater likelihood of diffusion to other firms, owing to the control over the market provided by a monopoly position. Supporters of this argument point to the high concentration of R&D activities in large firms. Indeed, there is evidence that generic innovation takes place predominantly within large firms.

However, the relationship between firm size, innovation and industrial progress is not well researched. Moreover, the issues involved are controversial. If innovation is perceived as a series of simultaneous and interactive activities undertaken by a number of firms, often in close cooperation with universities, research institutes, public research bodies and users of the innovation, the question of firm size appears far less important than the wider issue of organizing and coordinating the learning process. Consequently, in contrast to the common view, exploring ways to facilitate the learning process, rather than advocating a smaller scale of production, appears to be the appropriate basis for technology policies in developing countries.

Much of the discussion of firm size and innovation assumes a narrow sequential approach to innovation, where a one-sided emphasis on process innovation restricts the analysis to its cost dimension. Such an approach readily leads to a search for a clear relationship between levels of R&D and innovative results. Introducing a simultaneous evolutionary approach by adding a degree of complexity challenges much of this literature. Innovative activities cannot be measured by patents, nor is the economic effect of technical change a "once-and-for-all affair". The economic significance of gradual, cumulative improvements leading to product differentiation and new "use values" accounts for much of Western economic growth.

The simultaneous approach bears important for implications the question of firm size. Although average SMEs face many obstacles and difficulties with respect to innovation, a considerable part of the current innovation literature displays great enthusiasm for the dynamism of the small firm. In particular, the small firm plays a larger role in the diffusion phase through cumulative, incremental innovative activities, than does the large firm through its generation of radical, generic innovations. Moreover, non-formalized innovative activities consisting of design improvements and modification, imitation, learning by doing, learning by using and learning by interacting, play a greater role in the innovative activities of SMEs. Finally, flexibility and capacity for faster responses—another significant advantage SMEs appear to enjoy over the larger firms—lies in their closer relations with their customers, enabling greater sensitivity and responsiveness to changes in consumer demand. In other words, smaller firms manifest the behavioural patterns of innovative Schumpeterian entrepreneurs without resorting to the benefits and disadvantages of size.

However, adopting a simultaneous approach to innovation means that the question of firm size must be subsumed under a wider issue of institutional organization. An important source of technological learning in developing countries has been identified as resulting from enterprise-level linkages. An environment conducive to technological capability-building is also one that encourages firm cooperation and discourages atomistic, price-competitive behaviour. Hence, the degree of concentration of the market and

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* The author is a staff member of UNCTAD. This brief is based on *Discussion Paper No. 98*, published by UNCTAD under the same title. The views expressed here are those of the author and do not necessarily reflect those of the UNCTAD secretariat.

firm size *per se* are not the critical issues in this regard. The small versus the large firm debate poses a false dichotomy. Rather, it is the productive complementarities among firms of different size that is the key to a dynamic industrial environment throughout the life cycle of any industry.

An institutional environment that combines both competition and cooperation is most likely to facilitate the process of innovation, as shown in industrialized economies that have complemented private enterprise with a diversity of organizational and institutional structures that encourage wide-ranging experimentation. These include appropriate incentive mechanisms—both rewards and sanctions—that encourage risk-taking and provide for *ex post* selection of innovative activities, as well as contractual/legal institutional set-ups which can help manage uncertainty. The firm plays a central role in this supportive environment, not only because certain hierarchical relations reduce transaction costs associated with innovation and provide a degree of stability through which to manage the uncertainty surrounding innovation, but also because firms provide a continuum of relations that are essential for learning and search processes that underlie technological change and innovation. In this approach, a firm's boundaries are no longer contained by its size but by its knowledge base. Hence, there are no *a priori* optimal rules with respect to firm size, industrial structure and economic growth. In this context, in the era of globalized international markets, there is more than ever before a need for a dynamic theory of the firm.

Much of the recent evolutionary approach to technical change has been concerned with firms in the more technologically advanced countries. While the focus on the end product is not of direct relevance to most developing countries, a richer understanding of the evolutionary process of technical change is relevant to developing countries—especially to the process of technological capability-building, that relies on the learning arguments in general and on the salience of the learning processes at the enterprise level in particular. In developing countries, limited technological capabilities greater than the shortage of financial capital have impeded rapid industrialization and expansion of exports of manufactured goods. The dearth of technological capabilities has been identified as posing a major bottleneck to the catching-up process in the industrialization and development of most developing countries.

The process of industrialization has become more complicated by the advent of new technologies. Radical changes in technology over the last two decades, principally in microelectronics, telecommunications, biotechnology, new materials, and information and communications, have exerted a pervasive influence on financial and productive systems across all economic activities.

The system of flexible specialization imposes new production requirements, particularly with regard to labour profiles (more polyvalent and transferable skills, higher technologically intensive skills and enhanced knowledge of production processes in general). Flexible production requires the development of considerable production skili and capability that is not currently available in most developing countries, owing to the increasingly knowledge- and capital-intensive nature of this system of production. This lacuna clearly calls for government intervention conducive to creating technological infrastructure and an activist technology policy.

Undeniably, the twin processes of globalization and liberalization have opened up new opportunities to local firms for technological capability-building through inter-firm collaboration, particularly with more technologically advanced TNCs (strategic R&D). However, these processes have simultaneously generated further imbalances that may require correction. An effective strategy for small technology-based firms appears to be a mixture of the following elements: establishment of strategic alliances aimed at increasing access to external sources of technology and knowledge; increased linkages with universities and private research centres; promotion of inter-firm collaboration; R&D collaboration with other firms; inward and outward technology licensing; and the formation of R&D partnerships. SMEs' competitive potential can be further enhanced by benefiting from externally generated technological opportunities. The more advanced SMEs in many developing countries are cooperating with similar firms on technological issues, as they increasingly compete in the final product markets.

If a country expects to develop a strong and resilient industrial base, it should take into account the relevance of dynamic inter-firm relations and division of labour among firms of different sizes. The role of large firms in this process cannot be underestimated; neither should the diverse functions and the high potential of the small-sized firms, particularly in the diffusion phase of the technology/industry cycle. In this regard, it might be advisable to offer institutional support to SMEs through a wide range of business advisory services, such as industrial or extension services, consultancy services and technical information. The development of a national technological infrastructure, through a strategic technology policy, should not overlook the contribution of this sector, particularly in the earlier stages of industrial development.

Note to readers of the *UNCTAD Bulletin*

UNCTAD publications may be obtained from the following addresses:

- *Sales publications*: United Nations Sales Office, Geneva or New York offices.
- *Sessional documents*: Reference Unit, UNCTAD, Palais des Nations, CH-1211 Geneva 10
- *Discussion Papers* Editorial Assistant, UNCTAD, Geneva.

FINANCIAL GLOBALIZATION VERSUS FREE TRADE: THE CASE FOR THE TOBIN TAX

David Felix *

The Bretton Woods system was built on the basic premise that a global system of currency convertibility, multilateral trade and stable exchange rates requires constraints on international capital mobility. Since the floating exchange rate cum capital market liberation that followed the breakup of Bretton Woods in the early 1970s has failed to deliver any of the broad economic benefits that its proponents had predicted, the stabilization of exchange rates is once again becoming a mainstream position. The current position shares with Bretton Woods the belief that stable exchange rates facilitate international trade and investment by lowering exchange rate risk and by easing protectionist pressures. However, it parts company with Bretton Woods over the need to constrain international capital mobility. Recent efforts at stabilizing key exchange rates and the mainstream proposals to try it on a more ambitious scale are all premised on the belief that such efforts are compatible with the preservation, even the further promotion, of capital mobility.

The central thesis of this paper, however, is that the Bretton Woods position on capital mobility remains correct in theory and has been further validated by the experience of the past two decades. Without "putting sand in the well-oiled gears of the financial market mechanism", i.e. without slowing the speed of global financial market reactions, the stabilizing efforts will continue to fail and the more ambitious proposals and doomed to impotence. However, returning to a Bretton Woods-type system would require a level of international policy coordination that was unavailable during the mortal crisis of Bretton Woods in the late 1960s, and seems hardly feasible today. Therefore, the most realistic procedure is a step-wise one, in which slowing the reaction speed and growth of the globalized financial markets is the quintessential first step, to be followed seriatim by mutually agreed target exchange rates and currency bonds for the major currencies, coordinated adjustment mechanisms, and other components of ambitious stabilization proposals.

Slowing the growth as well as the reaction speed of global financial markets is necessary for stabilization to succeed, because the endogenous dynamics of financial markets tend not merely to generate excessive asset price volatility but also to take the build-up of financial activities in time to levels at which speculation overtakes the useful servicing of the productive sectors. Part of the slowdown of global output growth and rising unemployment since the demise of Bretton Woods is probably caused by an excessive financial build-up since the mid-1970s. The progressive lifting of capital controls during the 1970s and 1980s has reinforced the adverse causality, by magnifying the power of capital flight to gut the capacity of individual governments to implement counter-cyclical macroeconomic strategies. Monetary-fiscal policy has instead been forced to appease financial market expectations by keeping short-term interest rates high at the expense of output and employment.

The need to stabilize has become imperative because financial globalization is on a potentially explosive path. Volatile exchange rates promote hedging and speculative outlays that tend to enhance volatility. This dynamic interaction has been raising global foreign exchange transactions far faster than the growth of official reserves, rendering concerted intervention by central banks increasingly ineffectual for checking undesired exchange rate trends. The crisis management of the G-3 and G-7 monetary authorities has helped promote unhealthy global financial trends by encouraging moral hazard behaviour. That is, with the internationalizing of systemic financial crises, crisis management has tended to bail out speculative behaviour in distress in order to protect financial globalization, the recent Mexican crisis bailout of speculating portfolio capital being an egregious example. The risk that a future crisis may exceed the concerted containment capacity of the major currency countries is rising uncomfortably.

A globally uniform tax on foreign exchange transactions, along lines proposed by James Tobin some two decades ago, is the least market-interfering mechanism for slowing the reaction speed and growth of global financial flows. The relative incidence of a small uniform tax would be heaviest on yields from short round-trip ventures, while touching only lightly the yields from the longer-term currency round trips related to foreign trade and direct investment. It would therefore primarily curb covered interest arbitraging and uncovered currency speculation, activities responsible for much of the rising volatility of exchange rates and the growth of global financial flows since the 1970s. Sizeable tax revenues from a small globally applied tax would also help ease fiscal deficits, one of the factors that set off currency runs. A phased-in 0.25 per cent transaction tax would cut back global foreign exchange transactions by up to 30 per cent, while generating tax revenue globally in the order of $200 billion per annum.

The tax is also much less demanding of intergovernmental coordination than the more ambitious stabilization proposals being floated. Agreement between the seven leading financial centre countries would by itself encompass nearly 80 per cent of global foreign exchange transactions. Tax evasion problems

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(continued on page 6)

BEYOND "MARKETS VERSUS STATES"

Charles Gore *

It is now exactly 25 years since Bela Balassa published a paper arguing that Taiwan Province of China and the Republic of Korea were growing rapidly because of a transition from an inward-oriented to an outward-oriented policy. Despite its vintage, this idea, generalized through a rhetorical contrast between Latin American/African "failure" and East Asian "success", has become part of a package of best practices which are accepted as conventional wisdom in most developing countries. But at precisely the moment when the "market-friendly" approach to development has reached such dominance, it is becoming clear that the successful East Asian economies did not actually follow that approach.

This divergence is still empirically disputed and obscured by the slipperiness of the key terms used to describe the East Asian experience, such as "outward-oriented" and "market-conforming". But it is of immense importance for future trends in development policy analysis. It implies, at the very least, that there will be further nuancing of the market-friendly approach. More probably, the disjuncture can only be resolved through a paradigm shift.

1. Change in development philosophy?

Some observers see what is currently happening as "the pendulum swinging back". After the resurgence of neoliberalism in the 1980s reduced the role of the State in the development process, there will now be a swing back in which its role is enlarged again. But the nature of the divergence between East Asian policies and the present dominant paradigm suggests a more complex shift.

The simple reason is that it is misdirected to attribute economic success in East Asia to either States or markets. East Asian policies have been characterized by government promotion of national development through the activity of private enterprises. This means that there is no simple correlation between public expenditure and State action, and that it is impossible to conclude that relatively low levels of taxation and public expenditure imply that the State played a minor role. Since the policies rely on private enterprise as the principal engine of growth, they can be represented as "market-based"; but it is equally possible to call them "State-led" because economic activity has been directed towards national goals. Moreover, each of these polarized descriptions is in some sense a misrepresentation of a system which relies on both markets and States, and which has been described, with reference to Japan, as "a plan-oriented market economy system".

To incorporate this development experience into future development policy analysis will thus involve going beyond the false dichotomy between markets and States; but the question is how.

2. The underlying frame conflict

An alternative way of viewing the divergence between East Asian experience and current development orthodoxy which offers an answer to this question is to see it as a frame conflict. The framing of development policy involves both explanatory analysis ("what is and why") and normative evaluation ("what ought to be"), and these can be carried out in either a global or national frame of reference. It is with respect to these choices that East Asian policy diverges from current orthodoxy. Whereas East Asian policies analyse national trends in a global context and have in the past sought to achieve nationalist economic goals, the currently dominant development paradigm attributes national economic success mainly to internal factors, yet seeks to promote a liberal international economic order (LIEO).

A critical feature of East Asian-type development policies is that these countries have pursued nationalist economic objectives in the simple sense that they have in practice (rather than on paper) sought to promote national development. At the same time, they have sought to achieve their goals through national policies which have been designed in a global frame of reference. These policies, as with the Latin American dependency theory, been concerned with the process of late-industrialization in the periphery of the world economy. But whereas the dependency theory directed attention to how international centre-periphery relations blocked or distorted development in peripheral countries, East Asian theory, developed in particular in Japan and exemplified by the work of Kaname Akamatsu, analyses how late-industrializers can catch up with more industrialized countries through national policies which use those international relationships.

The current development orthodoxy has a completely different policy frame. With the introduction of adjustment programmes, mainstream development policy advice has sought to reinforce, at the national level and on a country-by-country basis, the broad principles of an LIEO. But the explanatory frame within which this goal is justified is methodologically nationalist. That is to say, national economic performance is typically explained by dividing causal factors

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* The author is from the International Institute for Labour Studies, ILO, Geneva. This paper is based on an article which will be published in the *European Journal of Development Research*, Vol. 8, No. 1 (1986), and has appeared as *UNCTAD Discussion Paper*, No. 111, under the title "Methodological nationalism and the misunderstanding of East Asian Industrialization". The views expressed in this paper are the author's and do not necessarily reflect those of the UNCTAD secretariat, or the International Institute for Labour Studies or ILO.

external, and then attributing what is happening in a given into internal and country mainly to internal factors. In this way, national economic trends are explained primarily by national factors, and in particular national policies.

This has essentially entailed the construction of arguments which prove that national policies, such as protectionist tariffs or selective industrial policy, which are in conflict with the norms of an LIEO, are harmful to national economic interests, while national policies which correspond to those norms are beneficial. These arguments have enabled a rhetorical commitment to the achievement of national goals (particularly economic growth plus poverty reduction) while sustaining the foundational normative commitment to the reinforcement of an LIEO.

3. Key policy differences

By focusing on the global/national frame conflict, it is possible to see that the divergence between East Asian development policies and those advocated in the dominant development paradigm are not basically a question of whether markets or States should have the leading role in the development process. **They are rather a question of how, within a global context, national policy can be formulated and implemented so that markets and States work together to promote development**. From this perspective, there are five key policy differences between East Asian policies and the dominant paradigm:

(a) East Asian policies are not narrowly focused on the system of incentives for efficient resource allocation, but are broadly concerned with ways and means of accelerating capital accumulation;

(b) East Asian policies are not simply export-oriented. In a national policy formulated in a global context, national demand is taken to be a part of global demand (global is not external), and consideration is given to both demand and supply;

(c) Openness is not taken to be a good in itself in East Asian policies; rather, the relationship of the national economy to the rest of the world is strategically and pragmatically managed in order to support national development objectives;

(d) Industrial policy in the East Asian successes has been an essential policy means of articulating the relationships between internal and external factors in promoting development;

(e) Economic relationships with less developed countries within the region—including direct investment and trade linkages, and competitive and complementary supply to extra-regional markets—are developed as part of East Asian-type national development policies.

4. Conclusion

The dominant development paradigm since the 1980s is characterized by a combination of global liberalism and methodological nationalism. But this is inherently unsustainable. The explanation of national trends in terms of national factors is only totally coherent if national economies are completely isolated and protected from outside influences. The more the norms of a liberal international economic order are adhered to and the more national economies open up to outside influences, the less tenable methodological nationalism becomes as a form of explanation. Faced with logical problems and the empirical challenge of East Asian industrialization, a paradigm shift in development policy analysis is inevitable.

This may initially involve wider experimentation with East Asia-type policies. But these are themselves evolving, in particular, with increasing orientation to regional objectives. It also remains a moot point whether it is possible to realize the same results with simultaneous wide-spread adoption of this approach. The most likely paradigm shift is therefore the full globalization of development policy analysis, in the sense of the adoption of a global policy frame for both explanation (as in East Asian policies) and normative prescription (as in the currently dominant paradigm).

The "markets versus States" debate has been central to the construction of the dominant development paradigm and has reinforced its focus on a national frame of reference. Getting development policy advice right in future will entail moving beyond this debate as it is currently framed and incorporating the insights of the East Asian experience by considering how States work with markets to promote national development in a global frame of reference. To make this shift, it will be necessary to elaborate alternative global normative frameworks to the variants of global liberalism which underlie the present development paradigm, as well as more sophisticated global explanatory frameworks which go beyond the simplicities of methodological nationalism.

NOTE TO READERS

As of beginning 1996 the *UNCTAD Bulletin* will be published on a quarterly basis because of financial constraints.

FORTHCOMING MEETINGS
APRIL-JULY 1996

- 15-19 April: Joint Advisory Group on the International Trade Centre UNCTAD/WTO
- 27 April - 11 May: UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, ninth session (Midrand, Republic of South Africa)
- 11-14 June: Regional Symposium for the Newly Independent and Developing Land-locked States in Central Asia
- 1-5 July: Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, 14th session

NOTES ON MEETINGS AND EVENTS

UNCTAD'S WORKSHOP ON MULTIMODAL TRANSPORT (St. Petersburg, 5-8 Dec. 1995)

The Workshop on Multimodal Transport, held in St. Petersburg from 5 to 8 December 1995, was jointly organized by the Multimodal Transport and Technological Development Section of the UNCTAD Services Development Division and the Ministry of Transport of the Russian Federation. This event was the hundredth in the series of the Workshops, which began in 1984 when the first Workshop on Multimodal Transport took place in Mombasa (Kenya). The Workshop held in St. Petersburg was attended by 35 participants, mostly from the Russian Federation, but also from Armenia, Byelorussia, Lithuania and Uzbekistan. They represented different branches of public and private sectors connected with the international transport chain, including shipping companies, road transport, railways, customs authorities, ports and ministries of transport.

The fact that international transport may create bottlenecks for trade is often explained by insufficient infrastructure and/or equipment. However, such bottlenecks are created just as often by institutional problems or lack of knowledge of modern transport procedures and insufficient coordination between partners in the logistics chain, particularly between transport providers (the carriers) and transport users (the shippers and consignees). Such problems are also quite common for the transport system of the former Soviet Union Republics, where many new private transport operators have emerged as a result of liberalization and privatization processes. A well-functioning transport sector is a vital necessity for the development of trade in these countries.

In order to help countries to overcome these handicaps, UNCTAD has developed a series of training packages that deal with specific problems in multimodal transport. They aim to identify institutional bottlenecks and propose measures to overcome them, as well as to improve the competitive strength of national transport operators so as to develop the foreign trade of the recipient countries. Training is adapted to local conditions in order to make it directly relevant to the participants.

Various aspects of modern transport are covered by these Workshops including economic, commercial, customs, legal and administrative matters. The training material is under continuous updating, and topics such as electronic data interchange (EDI) and EDIFACT have been added, while outdated material has been removed. These activities allow UNCTAD to receive valuable feedback from the field, which in turn makes UNCTAD's papers more relevant.

An important benefit of the Workshops has been a growing realization among participants that in order to remove bottlenecks to trade and transport a continuous dialogue between all concerned parties is of the utmost importance. Far too often there is no common forum where all parties can gather around one table to discuss questions of common interest. UNCTAD has consequently been promoting the establishment of forums to compensate for this lack. At first, UNCTAD suggested the creation of national trade facilitation committees, but over the last couple of years this has been enlarged to include transport issues: these are called National Trade and Transport Facilitation Committees (NTTFCs), a number of which have been established in Latin America, Africa and Asia. The Workshop in St. Petersburg—highly appreciated by the Minister of Transport of the Russian Federation—recommended the establishment of such Committees in those countries which participated in it.

Over the last decade, more than 2,500 persons have participated in the Multimodal Transport Workshops; they have been held in more than 50 countries, including: Africa, Asia, the Caribbean, Latin America and Eastern and Western Europe. Further Workshops are planned in Israel, Romania, Brazil and possibly other countries.

Training facilities are available to developing countries on request. For further information concerning training in multimodal transport and the establishment of NTTFCs, please contact the Multimodal Transport and Technological Development Section, Services Development Division (fax +41 22 907 0049; e-mail: hans.carl@unctad.org.).

UNCTAD AD HOC WORKING GROUP ON TRADING OPPORTUNITIES IN THE NEW TRADING CONTEXT (second session, 5-8 February 1996)

UNCTAD's Ad Hoc Working Group on Trading Opportunities in the New Trading Context held its second session from 5 to 8 February 1996. Government representatives from over 70 countries examined how and when to assist developing countries and countries in transition not only to implement the Uruguay Round Agreements but also to benefit from the commitments undertaken and, in particular, from the differential and more favourable treatment to which they are entitled. The outcome of the discussion of the Group, a set of recommendations, will be transmitted to the Committee of the Whole, set up by the Trade and Development Board to prepare for UNCTAD IX. The recommendations state that a deeper analysis of the implications of globalization and liberalization could consider the extent to which the concepts currently governing trade among nations are still valid tools for dealing with today's realities. The Group also recommends that UNCTAD should continue to analyse the effect of the implementation of the Uruguay Round Agreements, and closely follow developments in the multilateral trading system with a view to providing policy-oriented recommendations from a development perspective.

General Assembly resolution 50/95 of December 1995 invites UNCTAD "at its ninth session to transmit its assessment on challenges and opportunities arising from the Uruguay Round Agreements from a development perspective to the Ministerial Conference of the World Trade Organization", to be held in Singapore.

ROUND TABLE ON ENTERPRISE DEVELOPMENT (Bonn, Germany, 7-9 February 1996)

A round table on enterprise development in preparation for UNCTAD IX was organized in Bonn (Germany) from 7 to 9 February 1996 by the Development Policy Forum of the German Foundation for International Development, with the support of the German Government and UNCTAD. Fifty-five government officials, entrepreneurs and officials from business associations from 24 countries and representatives of eight international organizations participated. They discussed the respective roles of the government and the private sector in developing a strategy for enterprise development in the context of globalization and liberalization. Competence, reliability and dialogue were considered the three requirements for successfully promoting entrepreneurship and enterprise development.

On the part of government, competence means the ability to understand the role of enterprises in development and to design the right policies and a strategy for enterprise development, including the provision of hard and soft infrastructure. Reliability implies the elaboration of a transparent, stable and predictable policy and a commercial framework for enterprise development. This includes: sound fiscal, monetary and trade policies; a clear, stable and easily adaptable legal framework; an impartial and readily accessible judicial system; an intellectual property protection system; a well-functioning financial infrastructure; and a minimum of regulations, combined with an efficient bureaucracy and a transparent and moderate corporate tax structure. Reliability also implies the timely and adequate implementation of policies and laws adopted.

On the business side, competence means the ability to use resources efficiently, including the environment, in order to create jobs and raise living standards. Reliability implies the development of dependable support services for firms, including through inter-firm networks, such as in the areas of training and information. It also implies playing a responsible role towards employees, consumers and shareholders.

Dialogue between the government and the private sector is needed in order to develop a coherent strategy for enterprise in development.

CONFERENCE ON EAST ASIAN DEVELOPMENT (Kuala Lumpur, Malaysia, 29 February - 1 March 1996)

Some 80 policy makers, academics and senior economists from various regions met in Kuala Lumpur (Malaysia) from 29 February to 1 March 1996 at a Conference on "East Asian Development: Lessons for a New Global Environment". The Conference was organized jointly by UNCTAD and the Institute for Strategic International Studies (ISIS), Malaysia, and funded by the Government of Japan. The findings of the Conference will be transmitted to UNCTAD IX. There is a growing consensus that the economic success of East Asia has not been purely market-driven, but it also attributable to a well-defined role of the State. The objective of the Conference was to shed further light on the understanding of the "East Asian miracle". As UNCTAD points out, the issue is "whether other countries can construct their own policy regimes and supporting institutions around development principles that have been a helpful guide to policy makers and other actors involved in successful development experiences". Although there is no single path to development which fits every country, lessons are to be learnt from the East Asian experience. The project on "East Asian Development: Lessons for a New Global Environment" is part of UNCTAD's ongoing research on East Asia which began in the *Trade and Development Report, 1994*. The Trade and Development Board agreed that there should be a follow-up to the research published in that report. At that time there was broad agreement that the process of rapid outward-oriented industrialization which underpinned the region's achievements included a well-defined role for government policy. However, elements in understanding the East Asian miracle are still missing, in particular with regard to the institutional framework and the role of savings and investment.

A number of studies have been prepared in the context of this project; they provided the background for the above-mentioned Conference:

1 *New trends in Japanese trade and FDI: post-industrial transformation and policy challenges*
Yılmaz Akyüz (Global Interdependence Division, UNCTAD, Geneva)

2 *Institutions, economic policy and growth in the Republic of Korea and Taiwan Province of China*
Tun-jen Cheng, Stephan Haggard and David Kang (University of California, San Diego, United States of America)

3 *The economic impact of regional integration with special reference to APEC*
Yoshihisa Inada (Konan University, Kobe, Japan)

4 *Lessons from growth and structural change in the second-tier South-East Asian newly industrializing countries*
K.S. Jomo (University of Malaya, Kuala Lumpur, Malaysia)

5 *The role of agriculture in the early phase of industrialization: policy implications of Japan's experience*
Shigehisa Kasahara (Global Interdependence Division, UNCTAD, Geneva)

6 *Whatever happened to Latin America's savings? Comparing Latin American and East Asian savings performances*
Gabriel Palma (University of Cambridge, UK)

7 *WTO and industrial policies*
V.R. Panchamukhi (Research and Information System for the Non-Aligned and Other Developing Countries, RISNODEC, New Delhi, India)
8 *East Asian development: the flying geese paradigm reconsidered*
Robert Rowthorn (University of Cambridge, UK)
9 *Savings, investment and the corporation in the East Asian miracle*
Ajit Singh (University of Cambridge, UK)
10 *UNCTAD secretariat report* to the Conference on East Asian Development: Lessons for a New Global Environment, held in Kuala Lumpur (Malaysia), 29 February to 1 March 1996.

CONFERENCE ON CAPITAL FLOWS IN ECONOMIC DEVELOPMENT

In cooperation with the Jerome Levy Institute of Bard College, the Global Interdependence Division of UNCTAD held a Conference on Capital Flows in Economic Development, on from 8 to 9 March 1996 at Blithewood, the home of the Institute on the campus of Bard College in Annandale-on-Hudson, New York. It was attended by some 30 academic experts and financial market practitioners.

The purpose of the Conference was to discuss the challenges and opportunities presented by the globalization of financial markets. It addressed the widespread concern that the increasing integration of the world economy might provide benefits to only a minority of the world's population and countries, and at the price of increased instability and vulnerability. It examined the extent to which greater financial openness in developing countries has increased the influences exerted by international capital markets, and national policies needed to manage financial integration. It also discussed the implications of financial globalization for the mandates of international institutions and the coordination of their work, taking into account that the operation of financial markets is greatly restricting the scope for independent economic policies.

TRADE IN PETROLEUM/PETROCHEMICALS AND SERVICES AFTER THE URUGUAY ROUND

Experts from 16 Arab countries met in Manama, Bahrain, from 16 to 18 March 1996, to analyse the implications of the Uruguay Round in the petroleum and petrochemicals sectors and on professional services. The meeting was held under the auspices of the Bahraini Government, Ministry of Foreign Affairs and Chamber of Commerce. The event was jointly organized by UNCTAD and UNDP, in cooperation with WTO, ESCWA, the Arab Monetary Fund and the Arab Management Society, as well as other regional institutions.

On 19 and 20 March experts from countries of the Gulf Cooperation Council and regional institutions discussed their external trade relations in the light of the evolving multilateral trading system, particularly in the context of WTO.

SEMINAR ON BUILD-OPERATE-TRANSFER PROJECTS

As part of its activities on build-operate-transfer (BOT) arrangements, in cooperation with China's Ministry of Foreign Trade and Economic Cooperation and the Bank of China, UNCTAD organized a high-level conference and workshops on BOT arrangements for infrastructural development in China. The forum, held from 19 to 21 March 1996, brought together more than 35 senior executives representing 23 major transnational corporations from the energy, transport and telecommunications sectors, as well as senior Chinese government officials and two export-credit agencies. One of the objectives of the meeting was to help create a long-term partnership in support of private financing of infrastructure projects in China between Chinese officials responsible for investment decisions and their counterparts in the international investor community.

PREPARATIONS FOR UNCTAD IX REACH THE FINAL STAGE

The ninth session of the Conference will convene at the Gallagher Estate, in Midrand, South Africa, from 27 April to 11 May 1996. About 2,500 participants from the 188 States members of UNCTAD, as well as representatives from international organizations and non-governmental organizations, are expected to attend. The Conference will seek to "promote growth and sustainable development in a globalizing and liberalizing world economy". It will be opened by the Secretary-General of the United Nations on 27 April. Nelson Mandela, President of the Republic of South Africa, will address the inaugural session. The Conference will be presided over by the Minister of Finance of the host country, Trevor Manuel.

Intergovernmental preparations, begun more than a year ago, have now entered their final stage with a meeting of the Trade and Development Board and its Committee of the Whole from 26 February to 29 March 1996. The Committee met to prepare a prenegotiated text on the four topics which have been singled out for UNCTAD IX. The pre-Conference negotiated text, contained in document TD/B/EX(12)/CRP.4/Rev.2, will be transmitted to the Conference for further elaboration and adoption. The Conference, to be officially opened on 27 April by Dr. Boutros Boutros-Ghali, Secretary-General of UNCTAD, will be preceded by a Senior Officials meeting on 26 April in order to finalize organizational matters for the Conference. The general debate will begin on 30 April. A number of parallel events are being organized in connection with the Conference. An international business conference, called Africa Connect, will be held in Midrand, from 2 to 4 May. Southern African business leaders and high-level civil servants will gather at South Africa's National Event on Trade Efficiency to discuss recent progress towards global trade efficiency. This event will consist of two interlinked components: the Executive Symposium on Trade Efficiency (29 April to 1 May) and the SME Satellite Conference on Global Trade (8 to 9 May). An parallel meeting of NGOs is also being organized, to be held from 24 to 27 April near the Conference site in Midrand.

RECENT UNCTAD PUBLICATIONS

Annotated list

HANDBOOK OF INTERNATIONAL TRADE AND DEVELOPMENT STATISTICS, 1994
United Nations publication (511 pp.)
Sales No. E/F.95.II.D.15, US$ 80

The *Handbook of International Trade and Development Statistics*, the 1994 volume of which was published in December 1995, is probably the most comprehensive single volume of detailed analytical data on developing countries and their role in the world economy. Statistical tables have been grouped into seven main parts, and particular attention has been paid to relevance and ease of interpretation. Part I details the value, growth and shares of world trade, as well as trade balances and intra-trade by region. Part II focuses on volume, unit value and terms of trade indices, as well as price indices for primary commodities and manufacturers. Parts III and IV focus mainly on the network and structure of world trade in terms of, *inter alia*, commodity shares, concentration and diversification indices. Part V dwells on the balance of payments, financial resource flows and external indebtedness, including the expanded scope of data on services. Part VI contains a range of economic and social indicators of development. Part VII presents an update of data on three special topics: import penetration; export and import unit value indices; and data on CIS and Baltic countries. The annex gives detailed information on the trade network for the world and 21 regions of origin and destination and for total exports and 10 commodity categories.

TRANSNATIONAL CORPORATIONS
Vol. 4, No. 2, August 1995
United Nations publication
One-year subscription US$ 35; single issue US$ 15

The latest issue of *Transnational Corporations*, a refereed journal published by UNCTAD three times a year, features articles by policy makers and academics on international investment regimes, competition and organizational strategies of firms, Canada's Foreign Investment Review Agency and the United States of America's direct investment in Canada, as well as a research note on Foreign Direct Investment (FDI) in Taiwan Province of China:

- *The OECD Multilateral Agreement on Investment*
  William H. Witherell
- *Regional integration in a globally networked economy*
  Stephen J. Kobrin
- *Competing globally for resources*
  John M. Stopford
- *Canada's Foreign Investment Review Agency and United States direct investment in Canada*
  Robert T. Kudrle
- *Determinants of foreign direct investment in Taiwan Province of China: a new approach and findings*
  Jenn-Hwa Tu and Chi Schive

UNCTAD COMMODITY YEARBOOK
United Nations publication (428 pp.)
Sales No. E/F.95.II.D.25, US$ 70

The UNCTAD secretariat has published the twelfth volume of its principal statistical publication in the commodity field. It presents comprehensive, country-specific, statistical information not easily available elsewhere, in a manner designed to facilitate meaningful interpretation. The 1995 edition is divided into three parts and an annex. Part I consists of summary tables giving trade values and shares, by country, for primary commodities, food products, agricultural raw materials, minerals, ores and metals, and fuels, in their aggregates. Part II contains statistics on selected agricultural commodities, broken down into food products and agricultural raw materials. Part III presents data on selected minerals, ores and metals. Instability indices and trends in monthly market prices for selected primary commodities and special studies are contained in the annex.

BILATERAL TERMS OF TRADE OF SELECTED COUNTRIES FROM THE SOUTH WITH THE NORTH AND THE SOUTH
H. Ashok Chandra Prasad
UNCTAD Discussion Paper, No. 110, Jan. 1996

This paper desegregates the general terms of trade of India, Indonesia and the Republic of Korea into bilateral terms of trade. India's favourable terms of trade with the North owing to lower import prices, accompanied with higher import volumes, resulted in India's adverse balance of trade in the 1980s. While India's trade with Japan and the Federal Republic of Germany was beneficial for it in may ways, its trade with Malaysia and the Republic of Korea was more beneficial. The Republic of Korea's adverse terms of trade (only with major oil-exporters owing to oil prices) disproves the general belief that the Republic of Korea's export drive has been at the cost of its terms of trade. The "miracle" of its achieving both favourable terms of trade and a higher quantum of exports by a strategic mix of careful sequencing of import liberalization and export drive policy and the Indonesian "miracle" of suddenly shifting to non-oil exports are examples worth emulating. India, like the Republic of Korea in the 1980s, should continue its export drive policy to reap dynamic comparative advantages, along with phased import liberalization to strengthen its competitive base. This could help in making an Indian "miracle" a reality.

METHODOLOGICAL NATIONALISM AND THE MISUNDERSTANDING OF EAST ASIAN INDUSTRIALIZATION

Charles Gore

UNCTAD Discussion Paper, No. 111, Jan. 1996

This articles argues that the controversy over the role of public policy in East Asian industrialization should not be seen as a question of whether economic success can be attributed to States or markets, but rather as a conflict over policy frames. East Asian policies analyse national trends in a global context and have sought to achieve nationalist economic goals; the currently dominant development policy paradigm attributes national economic success mainly to internal factors, yet seeks to promote a liberal international economic order. The article examines misunderstandings which arise when East Asian success is explained in the terms of the dominant paradigm focusing on "outward-oriented" as a key word, the World Bank study *The East Asian Miracle*, and the flying geese model of development.

COMPARATIVE EXPERIENCES WITH PRIVATIZATION - Policy Insights and Lessons Learned

United Nations publication (327 pp.)
Sales No. E.95.II.A.12, US$ 38

What are the different forms of divestiture? What methods of privatization have recently been used? How can their success be measured? These and many other questions are addressed in this recent UNCTAD publication, which is meant to be a practical guide for policy makers, experts involved in designing and implementing privatization programmes and privatization practitioners. It aims to help understanding of what privatization is about and what the stakes are for the national economy. It is presented in a handy book format, richly illustrated with boxes and tables, and is divided into eight chapters on, namely, privatization objectives and strategy, framework for privatization, forms of privatization and their financing, privatization of infrastructure and public services, privatization of the financial sector, social aspects of privatization, privatization issues and the environment, and results of privatization.

Other titles

- Report of the Secretary-General of UNCTAD to the Ninth Session of the Conference (TD/366)
- Report of the Trade and Development Board to the Ninth Session of the Conference (TD/368)
- Report of TDB on the first part of its 42nd session - Summary of proceedings (TD/B/42(1)/19(Vol.II))
- Report of the Trade and Development Board on its 18th special session (TD/B(S-XVIII)/3)
- Report of the Working Party on the Medium-Term Plan and Programme-Budget on its 26th session (TD/B/42(2)/8)
- Final report of the Ad Hoc Working Group on Trade, Environment and Development, incorporating the report on its third session (TD/B/42(2)/9)
- Report of the Seminar on Regional Economic Arrangements and their Relationship with the Multilateral Trading System (TD/B/42(2)/10)
- Final report of the Ad Hoc Working Group on Trading Opportunities in the New International Trading Context (TD/B/42(2)/12)
- Report of the Third United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (TD/RBP/CONF.4/15)
- Report of the Ad Hoc Working Group of Experts on State Participation and Privatization in the Minerals Sector (TD/B/CN.1/35)
- The LDC Report 1996(Overview) (UNCTAD/LDC-(1996)-TD/B/42(2)/11(Overview))
- Report of the High-level Intergovernmental Meeting on the Mid-Term Global Review on the Implementation of the Programme of Action of the Least Developed Countries for the 1990s, 25 September-6 October 1995 (TD/B/LDC/GR/8)
- Report of the Joint UNCTAD/IMO Intergovernmental Group of Experts on Maritime Liens and Mortgages and Related Subjects, 8th session, 9-10 October 1995 (TD/B/CN.4/GE.2/10)
- World Investment Report, 1995: Transnational Corporations and Competitiveness - Overview (UNCTAD/DTCI/26(Overview))
- Analytical approach to evaluating...TCEES (UNCTAD/GID/9)
- Development challenges facing island developing countries: basic issues and prospects in the context of trade liberalization and globalization (UNCTAD/LLDC/IDC/2)
- Potentialities for regional port cooperation (UNCTAD/SDD/PORT/5)
- A programme of technical cooperation activities in support of Palestinian trade, finance and related services (UNCTAD/ECDC/SEU/11)
- Advanced technology assessment system - Information technology for development (UNCTAD/-DST/10)
- Environmentally preferable products as a trade opportunity for developing countries (UNCTAD/-COM/70)
- Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution (UNCTAD/COM/73)
- The Uruguay Round and the world cotton market: a preliminary overview (UNCTAD/COM/77)
- The Uruguay Round and the world copper market: A preliminary overview (UNCTAD/COM/78)
- Implementation of the Uruguay Round Agreement on Agriculture by major developed countries (UNCTAD/ITD/16)
- Regionalism and Africa's development (UNCTAD/ITD/18)
- Rapidly emerging regional integration systems: Implications for the Asian developing countries and possible policy responses (UNCTAD/ITD/19)
- Large economics spaces: Options for Latin America and the Caribbean (UNCTAD/ITD/20)

Sales publications

- *UNCTAD Review, 1995*, Sales No. E.95.II.D.23, US$ 28
- *International Natural Rubber Agreement, 1995*, Sales No. E.95.II.D.9 US$ 15

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 188 member States, including the 185 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. As part of the restructuring of the economic and social sectors of the Secretariat of the united Nations, the General Assembly in April 1993 approved the transfer to UNCTAD of a number of activities previously carried out by the former Centre on Transnational Corporations and the former Centre for Science and Technology The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 450 and is headed by a Secretary-General.

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  Advance Cargo Information System (ACIS) expands in Africa; Conference on Oil Marketing, Risk Management and Finance in Sub-Saharan Africa; Tenth Consultation between UNCTAD and Trade Unions; Seminar on Insurance in China; NGO news: Working Conference on Commodities.

- Recent UNCTAD publications and multimedia:

  1. Annotated list: *Globalization Myths - Some Historical Reflections on Integration, Industrialization and Growth in the World Economy; Japanese Financial Deregulation since 1984; Combating Agricultural Nonpoint Source Pollution - The Case of Mineral Balances; Incentives and Foreign Direct Investment; International Monetary and Financial Issues for the 1990s; Expansion of Trading Opportunities to the Year 2000 for Asia-Pacific Developing Countries; The Least Developed Countries - 1996 Report.*

  2. Information on UNCTAD available through Internet and CD-ROM; UNCTAD press releases; UNCTAD DI; Technical assistance; TRAINS.

  3. Other publications.

UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

UNCTAD REVITALIZED

UNCTAD IX, held at Midrand, South Africa, from 27 April to 11 May 1996, laid to rest many of the doubts and apprehensions about the future of UNCTAD. The outcome of the Conference was held as a major success and termed as a "renaissance" for the organization. At the recent summit of the G7 industrialized countries held at Lyon, the outcome of the Conference and the institutional reforms undertaken were praised as a model for UN reform in the economic and social sector.

This is in sharp contrast to the expressions of doubt in certain western circles about the relevance and continued usefulness of UNCTAD, especially since the publication of the Report of the Commission on Global Governance in 1995. It further adds credit to those who have consistently maintained their confidence in UNCTAD as the single most important world body dealing with trade and economic development.

Mr. Rubens Ricupero, Secretary-General of UNCTAD, accompanied Dr. Boutros Boutros-Ghali to the G7 Summit and participated in discussions on economic development issues. He subsequently held a press conference, the content of which is reproduced below in lieu of the usual editorial column.

* * * * *

"I am very encouraged by what I heard at Lyon. I dare say that no other international institution was devoted as much attention in the final *Communiqué* as well as such a positive assessment by the G7 leaders", the Secretary-General of UNCTAD told the press.

In an entire paragraph devoted to UNCTAD IX, the *Economic Communiqué* reads: "UNCTAD IX was a major milestone in the renewal of UNCTAD. In close partnership with the other member States, we succeeded in reforming UNCTAD's intergovernmental machinery and in refocusing its work on a small number of priorities to promote development through trade and investment with the aim of facilitating the integration of developing countries in the international trade system. We are committed to the implementation of these reforms. The least developed countries will be the major beneficiaries of this action. We also welcome the World Trade Organization (WTO) and the renewed UNCTAD initiative to enhance mutual cooperation with each other, with due regard to their respective mandates" (paragraph 44).

Earlier in the text, the G7 leaders consider that at UNCTAD IX "we succeeded, together with all our partners, to pave the way for a thorough reform which can also be regarded as an important point of reference for the reform of the UN economic and social sector" (paragraph 40).

Encouraged by this positive opinion about UNCTAD and its future work, Mr. Ricupero stated that the implementation of the results of UNCTAD IX would proceed at full speed and the establishment of the three commissions, as decided by the Conference, would be completed by the UNCTAD Trade and Development Board at a session scheduled for 8 July 1996.

UNCTAD's ideas permeate the G7 Economic Communiqué

Mr. Ricupero added that beyond explicit references to UNCTAD, many of the concepts that UNCTAD had advanced permeated the *Economic Communiqué* on development issues. For example, the *Communiqué* issued at Lyon reiterated the concept of a partnership for growth and development which was enunciated at UNCTAD IX. In its section dealing with providing necessary multilateral support for development, the *Communiqué* reflects very closely the global approach to the problems of heavily indebted poor countries which UNCTAD has been advocating for many years.

The fact that globalization of the world economy holds both promises of growth and risks of further marginalization of the poor countries is recognized by the G7 leaders. This was precisely the theme of UNCTAD IX. In this connection, Mr. Ricupero referred to his address to the recent session of the United Nations Economic and Social Council in New York, when he underlined that the contribution of developing countries to the growth and the interdependence of the global economy and trade had been second to none.

For instance, the merchandise imports of the ten leading Asian economies in 1995 amounted to US$ 748.4 billion, more than that of the European Union, excluding its internal trade, close to the US total and more than double that of Japan. To a large extent, this was the result of unilateral trade liberalization undertaken by developing countries. Such initiatives by these countries needed to be matched by trade liberalization initiatives by the developed countries, including a reduction in high tariff peaks and tariff escalation.

Looking ahead to the first ministerial meeting of the WTO, to be held in Singapore in December, Mr. Ricupero recalled that UNCTAD had been entrusted by the United Nations General Assembly with the important role of helping to ensure a more balanced trade agenda that duly takes into account the concerns of the developing countries. Indeed, at Midrand UNCTAD was given a mandate to deal with the new and emerging issues on the international trade agenda from a development perspective. UNCTAD was the institution which had the highest degree of competence in matters related, for example, to investment and competition; it had been designated as task manager on trade and environment issues, reporting to the United Nations Commission on Sustainable Development.

NINTH SESSION OF THE UNITED NATIONS
CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD IX)

(Midrand, South Africa, 27 April-11 May 1996)

MIDRAND DECLARATION

We, the member States of the United Nations Conference on Trade and Development (UNCTAD), gathered at Midrand, South Africa, for the ninth session of the Conference agree and state:

UNCTAD IX was characterized by frank assessments of UNCTAD's functioning made during the round tables of Heads of State, Multilateral Agencies and Ministers. This inspired member States to build a more effective organization capable of implementing its mandate in a changing world.

In 1992, UNCTAD VIII heralded *The Spirit of Cartagena*, a partnership for development. This was a clear recognition of the need for a new approach to assisting development. Four years later, it is clear that further vigorous initiatives are necessary to translate that spirit into reality.

Since Cartagena, the United Nations has held important global conferences on major economic and social themes. These have identified changes and challenges in the global economy, and highlighted the need for reform of the United Nations system. In addition, the creation of the World Trade Organization (WTO) has strengthened the rules-based trading system and furthered the process of liberalization, opening new opportunities for sustainable development and growth.

UNCTAD IX has responded to these changes and challenges by initiating important reforms designed to give new and real meaning to the partnership for development.

Globalization

Our economies continue to be unified by flows of trade, finance, information and technological change. This increased interdependence is a powerful impetus to liberalization of these flows. Competitive pressure on all economies has increased, and market forces play a pivotal role. The rules-based system of the WTO will facilitate positive integration of countries into the global trading system if the commitment to this objective is strengthened.

However, we must recognize that countries enter this system from very different starting points. Accordingly, the impact of globalization and liberalization is uneven. There are notable developing country successes where domestic reforms have provided increased dynamism to international trade and investment. Yet there remain problems of access to markets, capital and technology, and many grapple with the institutional transformation necessary for meaningful integration into the world economy.

The least developed countries (LDCs), particularly those in Africa, and other developing countries remain constrained by weak supply capabilities and are unable to benefit from trade. Marginalization, both among and within countries, has been exacerbated. Too many people continue to live in dire poverty. As we near a new millennium this is an intolerable situation.

It is in the interest of all countries that a mutually beneficial multilateral trading system continues to develop. This requires the recognition of differential impacts on countries and the solidarity necessary to ensure that all will benefit - a true partnership for development.

Partnerships

The partnership for development must be based upon a clear definition of roles, the establishment of common objectives and development of joint action. In practical terms this means:

(i) Strengthening intergovernmental cooperation between developed and developing countries;
(ii) Cooperation between developing countries should be enhanced with special attention to LDCs;
(iii) More effective coordination and complementarity of multilateral institutions;
(iv) The mobilization of human and material resources towards development through dialogue and common action between Governments and civil society;
(v) Partnerships between the public and private sector to achieve higher growth rates and greater development.

UNCTAD's work

UNCTAD's mandate remains relevant as the focal point for dealing with trade and related issues of development. It must build upon its comparative advantage and offer support appropriate to the needs of developing countries to ensure that they participate in the world economy on a more equitable basis.

UNCTAD's policy research and analytical work must illuminate the changes in the global economy as they relate to trade, investment, technology, services and development. Such work must facilitate policy formulation within member States as they strive for development. It must lead to constructive policy dialogue among member States to enhance benefits of trade. It must respond to different and changing developmental needs in the ongoing process of integration in the global economy.

Policy formulation assistance requires appropriate technical support and co-operation in order to achieve concrete results. It is essential that special attention is paid to creating an overall enabling environment at a policy and institutional level for the LDCs.

In enhancing technical cooperation, UNCTAD will strengthen its cooperation and coordination with WTO and other multilateral institutions. Developing countries themselves are increasingly contributing to technical cooperation.

Member States must also be supported as they build transparent and accountable governance and administration in all sectors of society. This enhances trade and investment.

Institutional reform of UNCTAD

The comprehensive United Nations reform process is designed to refocus and reinvigorate international cooperation for peace and development. UNCTAD IX and the Secretary-General of UNCTAD have made a significant contribution to this process through the comprehensive changes that have been adopted. These changes support the more focused work of UNCTAD through streamlining the intergovernmental machinery, improving the method and quality of expert input and focusing and integrating the secretariat's working methods. The results of these changes must be outputs that respond to the needs and demands of the member States.

In a rapidly changing environment it is essential to maintain the relevance of an organization's work. This can only be done through improved accountability based on assessment, review and transparency of operation. The UNCTAD Trade and Development Board must perform this oversight role.

To build on the political commitment of member States to the process initiated at this Conference and ensure its implementation, the President of UNCTAD IX should consider convening a special high-level review meeting two years prior to UNCTAD X.

Partnership initiatives

The Secretary-General of UNCTAD will convene a meeting with actors in development to advise him on how to enhance the participation of civil society in UNCTAD to build a lasting partnership for development between non-governmental actors and UNCTAD.

South Africa, as President of UNCTAD IX, in consultation with its regional partners and the Secretary-General of UNCTAD, will host a workshop on the partnership between the public and private sectors in mobilizing resources for development. The focus will be on the role of this partnership for LDCs and how other developing countries can work together with LDCs. South Africa will request the Asian Group and the Latin American and Caribbean Group to share their experience in this regard. It is appropriate that such a workshop take place in Africa, where the majority of LDCs are located.

South Africa to Thailand

At no time in world history has the destiny of all its many different peoples been so intertwined. This must lead to solidarity in action to eradicate poverty. It has been correctly stated in this Conference that no one can do for us what we will not do for ourselves. Our challenge is to ensure that all human rights and fundamental freedoms, including the right to development as an integral part of fundamental human rights, are promoted and protected.

Starting in South Africa - a country which chose a path of rejuvenation and hope - UNCTAD will traverse four years to Thailand - a country where significant progress has been achieved. When we reflect back on this path in the year 2000, may it be in the knowledge that our solidarity has improved the lives of people.

UNCTAD IX

A. Highlights of the outcome of the Conference

The ninth session of the United Nations Conference on Trade and Development (UNCTAD IX) was held in Midrand (South Africa) from 27 April to 11 May 1996 on the theme "Promoting growth and development in a globalizing and liberalizing world economy". Parallel to the Conference, a number of events were organized with the participation of international as well as non-governmental organizations, local governments, the private sector, representatives of trade unions and a number of distinguished academics. While the Conference concentrated on official deliberations and negotiations, the parallel events were devoted to discussion of the issues under consideration and their operational implications.

The Conference set priorities for development action in a globalizing world economy. These priorities stem from the recognition that only through a global partnership for development can the international community eliminate disparities between and within nations. The Conference adopted practical recommendations in this respect contained in a 30-page text called "A Partnership for Growth and Development" (contained in TD/377). The Conference also adopted the Midrand Declaration (see box on page....), which gives a strong political boost to international cooperation for development and to UNCTAD as the focal point within the United Nations for the integrated treatment of development and interrelated issues in the areas of trade, finance, technology, investment and sustainable development. The Declaration calls for greater partnership between developed, developing countries and the least developed countries. It also emphasizes the benefit of involving the civil society in the partnership for development.

The Conference also agreed on major institutional reform of the organization in order to focus its work on a few priority trade and development issues of central importance, on which it can make a substantial impact on people's lives in developing countries, in particular in the least developed among them.

UNCTAD IX undertook a restructuring and streamlining of UNCTAD's intergovernmental machinery. The Trade and development Board, the executive body of UNCTAD, is responsible for ensuring overall consistency in UNCTAD's activities. It will now meet once a year in regular session, in the autumn, to deal with interdependence and global economic issues from a trade and development perspective. It will also review progress in the implementation of the Programme of Action for the LDCs and of the United Nations New Agenda for the Development of Africa, focusing attention on the examination of policy lessons drawn from successful development experiences.

The Board can meet in executive sessions three times in the course of the year to deal with policy as well as management and institutional matters.

The following subsidiary bodies of the Trade and Development Board were established by the Conference: (i) the Commission on Trade in Goods and Services and Commodities; (ii) the Commission on Investment, Technology and related financial issues; and (iii) the Commission on Enterprise, Business Facilitation and Development. These Commissions will adopt an integrated approach in their respective areas of competence; they will meet once a year, unless otherwise decided by the Board. Each Commission may convene expert meetings of short duration; the total number of expert meetings will not exceed ten per annum.

UNCTAD'S new mandate resulting from UNCTAD IX

An important decision taken by the Conference is that the "interests of developing countries should be taken into account" in the built-in future work programme contained in the various Uruguay Round Agreements and the key new emerging issues. UNCTAD has been entrusted with policy analysis from a development perspective on topics on the international trade agenda, including new and emerging ones. This will help to build consensus and bring the interest of developing countries to bear on issues before they enter the international agenda for negotiation in WTO. UNCTAD is called upon to improve the general knowledge of trends in FDI and to analyse "implications for development of issues relevant to a possible multilateral framework on investment", bearing in mind the work undertaken by other organizations, such as the OECD.

Competition is seen as an important new policy area. UNCTAD's ongoing work on restrictive business practices is relevant to this subject. The organization is requested to examine issues related to competition laws of particular relevance to development. UNCTAD is further called upon to analyse issues concerning environmental policies and measures, in particular competitiveness, market access, eco-labelling, multilateral environmental agreements, and trade liberalization and sustainable development.

The Conference agreed that UNCTAD should continue to facilitate the integration of developing countries and countries in transition in the international trading system. Its work should be action-oriented and provide guidance on national policies, with special focus on LDCs. In this context, the organization is also requested to provide practical assistance and policy advise.

A major objective set by the Conference is to support the development of domestic enterprises, especially small- and medium-sized ones. UNCTAD will continue to review national investment policies and to enhance the capacity of developing countries and economies in transition to improve their overall investment climate. In addition, it will undertake review of the situation regarding science, technology and innovation, etc., at the national level. UNCTAD will furthermore provide technical assistance to developing countries in assessing information technology. It also has a major role to play in the services infrastructure for development and trade efficiency. The Conference further called for the consolidation of the Trade Point Network.

B. Parallel and special events

Africa Connect (Midrand, 2-4 May 1996)

A major international business conference took place in parallel with UNCTAD IX. The conference, attended by over 500 representatives of African and international firms and business organizations, aimed at promoting awareness of business opportunities in Africa. Another objective was to promote an exchange of information and day-to-day experience concerning investing and trading in Africa. Finally, it was an opportunity for putting businessmen interested in prospects of the African continent in touch with each other. Participants adopted the Johannesburg Declaration, which stresses the encouraging experiences of enterprises on the continent and takes issue with the negative stereotyping of the investment climate in the region. In addition to the rewarding petroleum and mining sectors, many others have been identified as promising but largely unexplored opportunities for investment: agro-industry and clothing manufacture, production of consumer durables, infrastructure strengthening of telecommunications, power, transportation and construction, and the development of tourism. At the same time, the Declaration recognizes that inadequate physical and venture capital, poor access to non-risk averting commercial loans, excessive bureaucratic and other barriers to cross-border trade and investment, and inadequate support from the State in the investment process prevent enterprises from reaching optimum results. African countries were urged to pursue improvement in the legislative and regulatory framework for the business community. Developed countries were also called upon to contribute to business development in Africa by allowing free entry of goods manufactured in the region. The Declaration includes concrete suggestions for linking African markets with each other and with the outside world. It recommends that a Regional Chamber of Commerce, a Regional Manufacturers Association, and a Regional Investment Promotion Agency be set up in order to encourage South-South joint ventures. The Declaration urges the international community to consider the Africa Connect programme as an integral part of the recently announced United Nations System Wide Special Initiative on Africa or, alternatively, to set up a separate Trust Fund for similar events.

NGO Meeting (Midrand, 24-28 April 1996)

Approximately 80 NGOs participated in the work of UNCTAD IX. They met prior to the Conference with a view to discussing the issues at stake and coming up with concrete positions. The meeting was organized by UNCTAD in cooperation with the Non-Governmental Liaison Service of the United Nations (NGLS) and with the financial support of the Governments of Norway, Sweden and Denmark and of the European Union. It was divided in two parts. The first examined in particular African issues and allowed African NGOs to discuss among themselves issues of specific importance to them, such as capacity-building. The second part of the meeting was devoted to international issues and looked specifically at the agenda for UNCTAD IX.

Two declarations were adopted at the end of the meeting: an African Declaration, and a Joint International NGO Statement for UNCTAD IX entitled "Globalization must not be at the expense of people". Both declarations were widely distributed to participants at the Conference.

NGOs were very active during the Conference and issued a newspaper giving an NGO perspective on the negotiations. A representative from an international NGO, the Third World Network (TWN), participated in the Ministerial Round Table on the "Future of UNCTAD". On this occasion, TWN expressed the support of the NGO community to the work of UNCTAD, its specific contribution to cooperation for development and its willingness to find appropriate ways to strengthen cooperation between NGOs and UNCTAD.

The issue of involving more closely the civil society (both NGOs and the business community) in UNCTAD's work was discussed by governments. The Conference reaffirmed the importance of involving NGOs in the activities of UNCTAD. To this end, UNCTAD was requested to continue to take into account their views by inviting them to participate in an advisory capacity at public meetings of the Board, its Commissions and expert group meetings. In order to enhance further the participation of the civil society and to build a lasting relationship between non-governmental actors and UNCTAD, the Conference requested the Secretary-General of UNCTAD to pursue consultations with NGOs, taking into account the experience of the participation of the civil society in other UN forums, and to report and make recommendations to the Board. The Conference noted with appreciation the Secretary-General's initiative to convene a meeting, to be financed out of extra-budgetary resources, with actors in development to advise him. The Secretary-General was invited to inform the next regular session of the Board of preparations for this meeting and to report subsequently on its outcome.

South Africa's Executive Symposium on Trade Efficiency (Midrand, 29-30 April 1996)

The Symposium, held in parallel with UNCTAD IX, was financed by the Government of Switzerland; the participants included 400 delegates from the public and private sectors of Southern African countries and 65 Trade Point directors worldwide. It launched the third phase of the Global Trade Point Network (GTP-Net), which is expected to become the main vehicle for global electronic trading and a major tool integrating weaker partners into the world economy (see *UNCTAD Bulletin* Nos. 27/28 and 33). The Midrand Symposium was the first gathering to discuss trade efficiency at a regional level. In-depth discussions were accompanied by demonstrations of some of the most advanced multimedia technologies for trade. Practical proposals were made to improve key sectors

of trade services, such as transport, customs, business information, financial services and trade facilitation.

At a meeting of the Group of 77 held in Midrand on 13 May 1996, immediately following the conclusion of UNCTAD IX, the President of the European Commission announced the Commission's contribution of 11 million Ecu to the development of GTPNet in Western Africa, as an instrument to widen the participation of African operators in international trade and to reduce the cost of trade transactions.

Support for the ASYCUDA Programme

During UNCTAD IX, Anthony Nelson, British Minister of Trade, and Rubens Ricupero, Secretary-General of UNCTAD, signed an agreement to provide further United Kingdom support to UNCTAD's Automated System for Customs Data (ASYCUDA) Programme. This latest support enhances its contribution for 1996, which so far totals over US$ 2 million. The implementation of ASYCUDA forms part of an UNCTAD's technical cooperation programme, and accounts for major customs reforms around the world. The system, principally used for cargo clearance, has already been installed in over 70 countries and a further 30 are currently in the implementation stage. Trade transactions of over US$ 200 billion are being processed annually and cleared by ASYCUDA, producing a combined revenue increase of over US$ 1 billion.

Fourth World Meeting of Trade Point Directors (Midrand, 1-3 May 1996)

The meeting, held in parallel with UNCTAD IX and attended by 66 representatives from 50 Trade Points in 43 countries, adopted a set of guidelines for financial sustainability and cooperation among Trade Points. The set includes very practical decisions to enable consolidation of the Global Trade Point Network (GTPNet) and improve relationships among Trade Points. The meeting adopted a new EDIFACT-compatible standard for the dissemination of ETOs (Electronic Trading Opportunities), which are expected to become a major source of revenue for Trade Points. Four new Trade Points are to be set up in China, and Palestine is to open its first Trade Point (for more details on the UNCTAD Trade Efficiency Initiative and GTPNet, see *UNCTAD Bulletin*, Nos. 27/28 and 33).

World Association of Investment Promotion Agencies (Midrand, 4 May 1996)

At this regional meeting, the World Association of Investment Promotion Agencies (WAIPA) endorsed a proposal by the Uganda Investment Authority to establish a WAIPA African Chapter to strengthen regional activities. Cooperation will start with the aim of introducing a system for facilitating the exchange of data on transnational corporations among Investment Promotion Agencies (IPAs); publishing an IPA news magazine for Africa; and setting up periodical regional training workshops for investment promotion officers from African IPAs and organizing investment promotion fairs. Over 65 countries have become WAIPA members, including 15 IPAs from Africa, 17 from Asia and the Pacific, 12 from Central and Eastern Europe, 14 from Latin America and the Caribbean and nine from Western Europe. WAIPA was founded under UNCTAD auspices in April 1995. (For more information on WAIPA, see *UNCTAD Bulletin* No. 32).

Private initiative for micro-enterprises launched at UNCTAD IX

At the initiative of UNCTAD, the public and private sector are for the first time pooling financial resources to tackle a development *problématique*. The Banque Internationale at Luxembourg (BIL) will create a private fund investing in micro-finance institutions in developing countries, through which micro-banks will be able to offer loans at cheaper rates to micro-entrepreneurs in these countries. The fund is planning to invest in the coming months an initial amount of US$ 10 million in a dozen micro-banks in Latin American countries. Throughout a five-year period, the fund should invest US$ 100 million in approximately 100 micro-banks in African, Asian, Latin American and possibly East European countries. The fund, to be managed by BIL and supervised by the Luxembourg Monetary Institute, will be open to private institutional investors, such as insurance companies, pension funds and banks. It will be administered by a specialized first-rate management company, entrusted with the selection and follow-up of investment. UNCTAD will assist the fund with the identification of possible micro-banks and negotiations with national regulatory authorities. This project will open direct access for micro-banks to the international financial market so as to increase the amount and decrease the cost of funds available to micro-enterprises in developing countries. This should be seen against the current situation, in which concessionary loans by public donors are increasingly difficult to obtain and need to be complemented by commercial loans, which are scarce and often too expensive for micro-enterprises.

The Raul Prebisch Lecture (Midrand, 29 April 1996)

The seventh Raul Prebisch Lecture was delivered, on the occasion of UNCTAD IX, by Professor Jagdish Bhagwati, Arthur Lehman Professor of Economics and Professor of Political Science at Columbia University, on the theme of "The Global Age: From a Sceptical South to a Fearful North". The Raul Prebisch Lectures were instituted in 1982 by Gamani Corea, who was Secretary-General of UNCTAD at the time, to honour Raul Prebisch, the first Secretary-General of UNCTAD.

According to Professor Bhagwati, the dominant feature of the world economy is its increasing globalization and the growing fear of its consequences in the developed countries. This fear is in sharp contrast to the warm embrace of the Global Age by policy makers in a large number of developing countries. As globalization has proceeded apace on virtually every dimension of international interaction, whether trade or direct investment, capital flows or migration, the developed countries have witnessed the growing alarm of their citizens over its implications for a variety of issues, such as real wages of workers, economic security, political autonomy and democracy, and the ability to maintain high labour standards. Professor Bhagwati

considered that developed countries had to surmount these fears, which, he argued, are largely exaggerated and do not justify some of the proposed countervailing measures to deal with them at the international level. In this respect, Professor Bhagwati concentrated on the vital question of falling wages and rising unemployment and the resulting call, in the United States and Europe, for the inclusion of environmental and labour standards at the WTO. These demands are unwisely recreating the North-South divide. To understand the danger of these proposed policies to the developing countries and to the world trading regime, Professor Bhagwati further addressed the parallel but still contrasting issues of eco-dumping and the social clause at the WTO. The call for environmental and social standards, largely prompted by international competition and reflecting the view that the lack of identical standards amounts to "unfair trade", are being resisted by the developing countries. Professor Bhagwati concluded that the new international architecture that must be built to secure the gains from the Global Age must not be founded on faulty foundations inspired by exaggerated fears. It must not be one that begins by creating a North-South divide when we have just managed to put such dissensions behind us. Countries need to reject the folly of including a social clause and eco-dumping varieties of trade-and-environmental agendas in the world trading regime. Instead, recognition of the important role of NGOs as development agents able to use persuasion effectively, a careful and fair-minded design of labelling approaches applied symmetrically to both developed and developing countries, and a shift of international analysis and encouragement of improved environmental and labour practices in all countries to appropriate institutions—such as UNEP and the ILO—are among the right means to seek solutions to the problems at hand. Moreover, instead of moving into these new areas, it is preferable to finish the uncompleted task of creating free trade, an essential component of the Global Age. The nations of the world should unite behind such a vision. Both WTO and UNCTAD have a critical role to play in this respect and to lead, in shared partnership, the international community towards a truly Global Age with world-wide free trade.

UNCTAD Seminar on Risk Capital Investment in Africa (Midrand, 6 May 1996)

UNCTAD organized, in parallel with UNCTAD IX, a seminar on prospects for risk capital investment in Africa. The seminar was attended by officials from the International Finance Corporation and the Commonwealth Secretariat, as well as managers of private investment banks and emerging market funds. The debate centred on the current state of play of risk capital investment in Africa, its prospects and impediments. The major conclusion that Africa is the "ultimate" emerging market with unique growth potential was prompted by the substantial progress made in many countries in their macroeconomic policies and regulatory framework. However, investors felt that a sufficient level of security, profitability and liquidity needs to be ensured in order to attract more investment. Further major efforts were also needed to build and improve local capital market infrastructures. A number of participants pointed out that UNCTAD could help to mobilize equity investment, especially in unquoted companies. It could also help to develop exit mechanisms for divestment, promote regional projects and strengthen domestic capital markets.

Joint UNCTAD-UNEP Seminar on Environmental Impact of Economic Globalization (Midrand, 7 May 1996)

Representatives of governments and international organizations met at a seminar organized jointly by UNCTAD and the United Nations Environment Programme (UNEP) on the occasion of UNCTAD IX. The participants concluded that globalization of the world economy and liberalization of international trade are being accompanied by growing environmental pressures. It is therefore increasingly important for trade and environmental policies to be mutually supportive. This implies that the burden of maintaining the world environment should be addressed along with the serious inequities that exist in the sharing of the benefits of the processes of globalization and liberalization. Moreover, the relationship between trade and the environment is complex and has important development implications, which in many cases are not fully understood. Further, it was recognized that the work of UNCTAD and UNEP is complementary to that of the WTO and focuses on the developmental and environmental aspects of different issues.

THE NETHERLANDS PROVIDES UNCTAD WITH FINANCIAL SUPPORT IN FAVOUR OF THE LEAST DEVELOPED COUNTRIES

On the occasion of UNCTAD IX, the Government of the Netherlands announced a US$ 1 million contribution to a trust fund to be set up in support of the least developed countries (LDCs). Through its contribution, the Netherlands intends to ensure that recommendations adopted in favour of LDCs at recent international conferences are implemented. The contribution, earmarked for capacity-building, has four main objectives: (i) to enhance the participation of women entrepreneurs in LDC economies; (ii) to facilitate in LDCs greater policy focus on and attention to universal access to basic social services, as recommended in the Copenhagen 20/20 Initiative; (iii) to strengthen fiscal and financial sector reforms in LDCs; and (iv) to assist the countries concerned in the implementation of the Uruguay Round Agreements and to assess their implications for trade and development in LDCs.

The Secretary-General of UNCTAD proposed to UNCTAD IX the creation of a trust fund in UNCTAD for the LDCs, to be named after the late Kenneth K.S. Dadzie, former Secretary-General of UNCTAD. The Netherlands has suggested exploring how its own LDC trust fund contribution could be incorporated in the proposed UNCTAD fund.

STATEMENT BY THE SECRETARY-GENERAL OF UNCTAD AT ECOSOC

Rubens Ricupero, Secretary-General of UNCTAD, participated, on 24 June 1996, in the high-level policy dialogue on important developments in the world economy and international economic cooperation. This exchange took place in the context of the annual substantive sessions of the Economic and Social Council among Executives Heads of multilateral financial and trade institutions.

He addressed three central issues, namely, globalization and developing countries, pending issues on the agenda of international cooperation, and the role of UNCTAD in advancing these objectives.

Globalization and developing countries

In recent years, the contribution of developing countries to the growth and the interdependence of the global economy and trade has been far in excess of their relative economic weight. While growth in world output fell from 3 per cent in 1994 to 2.5 per cent in 1995 and growth in developed countries decreased from 2.8 per cent to 2.1 per cent in the same period, growth in the developing countries taken as a whole has accelerated. A striking evolution is the autonomy of economic growth in certain developing countries *vis-à-vis* the traditional locomotive of growth in the industrialized world. This is particularly true for Asia.

Import expansion was greatly influenced by the far-reaching liberalization programmes undertaken by developing countries during and after the Uruguay Round. Not only have developing countries liberalized their trade; they have also been successful in their macroeconomic policies, significantly liberalized and deregulated their financial markets and, last but not least, gone through unprecedented liberalization of rules related to foreign direct investment. All these facts and figures seem to suggest that it is high time to modify the outdated *cliché* about developing countries lagging behind in terms of trade and financial liberalization.

The agenda of unfinished business in international cooperation

Having outlined the particular efforts undertaken by developing countries at the domestic level, one must look at the often neglected second half of the development equation, the external environment. Here the main responsibility lies on the international community. It is therefore pertinent to ask what is the international community willing to do for the cause of development? A good point to start would be to demonstrate commitment to accelerate world growth, and to make it less erratic and uneven by coordinating a strategy of economic expansion to raise demand and promote budgetary policies which allow for expenditures to combat unemployment.

Quoting the Annual Report of the Bank for International Settlements with regard to unemployment rates in some OECD countries, Mr. Ricupero stated: "Thus, it is perhaps the right historical moment to recall the advice of Keynes and Wicksell in the early 1920s ... that it is appropriate as well as feasible for central banks to resist both inflation and deflation".

A second important dimension of a favourable external environment is the further deepening of trade liberalization from a development perspective, looking in particular at areas such as agriculture, textiles and clothing, footwear and leather goods, where the liberalization process is still at a very incipient stage. Quoting a World Bank report, Mr. Ricupero said that the prospective external environment for developing countries "may be among the most favourable in many decades... it will depend [however] on continued significant policy adjustments in industrial countries ... [such as] reductions in fiscal deficits, sustained anti-inflationary resolve, structural reforms to address high unemployment ... and continued strong momentum on global trade liberalization".

He further stressed that it is by no means a coincidence that the poor performers are found among the weak and vulnerable economies, whose common trait is their acute lack of basic and productive infrastructures and weak supply capabilities, making it difficult for them to take advantage of the opportunities created by the trade system. Their problems cannot be overcome on the basis of self-help; they need increased external technical assistance, financing and official development aid. Moreover, these countries also often share an unbearable burden of foreign indebtedness that is hard to overcome without decisive action by the international community. In relation to ODA, now at its lowest level in 20 years and still falling, Mr. Ricupero said that a frequent excuse given for its decrease is the need to cut budget deficits in developed countries. Quoting Mr. Camdessus, he warned of the consequences of this "dangerous slippage": "Practically all over the world, the social window of structural adjustment programmes is too often underfinanced due to the fact that industrial countries continue to deny to this modality of social cooperation the priority that it deserves in a unified world".

Finally, one essential element which was missing in the current external environment was a system of financial cooperation capable of preventing the emergence of serious financial crises and of reducing the level of financial volatility. In the context of the process of reform of multilateral institutions presently under way, Mr. Ricupero suggested giving some consideration to the idea of setting up an early warning system, to be jointly operated by the United Nations, the Bretton Woods Institutions and the WTO. The aim would be to detect emerging crises, so as to take coordinated action in order to limit not only the financial and economic fallout of such crises but their social, humanitarian and security consequences as well.

UNCTAD's role

UNCTAD has emerged from its ninth session, in South Africa, with a revitalized role. It has received, firstly, broad and significant political support from all its member States; secondly, a clear and reinforced mandate which strikes the right balance between a focus on new and emerging issues, such as investment and enterprise, and the maintenance of the institution's traditional agenda to deal with persistent problems. Mr. Ricupero underlined the major changes under way: the intergovernmental machinery was streamlined and simplified, with the setting up of only three commissions, and their concentration on a few priority topics. However, he stressed that the most important result of the Conference was the reinforcement of the concept of partnership

(continued on page 15)

INTERVENTION VERSUS REGULATION: THE ROLE OF THE IMF IN CRISIS PREVENTION AND MANAGEMENT

E.V.K FitzGerald [1]

This brief addresses the most effective role for the International Monetary Fund (IMF) in a volatile global capital market, bearing in mind the interests of the developing countries. It will also argue that the prudential regulation of lenders—possibly by extending the scope of the Bank for International Settlements (BIS)—may be more effective than the present practices of IMF in crisis-lending and in penalizing borrowers.

The role of the IMF in an increasingly integrated global economy is to help create an orderly international financial market. As the first of the Fund's Articles of Agreement states, its aim in so doing is: "to facilitate the expansion of balanced growth in international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy". The original institutional design at Bretton Woods in 1944 was intended to stabilize the world economy in general and support the non-industrial economies in particular. However, in the two major crises faced by the international financial system in the 1970s and 1980s—recycling of the petrodollar surpluses and the sovereign debt problem—the IMF did not play a central role. Neither the Fund nor the BIS (nor the respective national authorities) appear to have attempted preventive measures to control the larger borrowing governments and the lending banks in order to avoid the accumulation of bad debt.

In the 1990s privatization and liberalization attracted a new type of foreign investor (institutional funds) to "emerging markets". The IMF was unable to overcome the asymmetric information and agency problems which inevitably arose and culminated in another Mexican collapse in 1994/95. As in the 1982 crisis, the United States Treasury was forced to intervene in order to bail out US investors. A key element of the rescue operation was the IMF loan, the largest and the quickest in IMF history—and it did not involve rigorous conditionality.

Developing countries rely on capital flows to sustain investment and suffer disproportionately from international financial volatility for a number of reasons. First, exchange rate instability, high interest rates and slow growth in industrial countries result in sluggish demand for the exports of developing countries. Secondly, high interest rates raise the cost of debt service and cause fiscal strain in developing countries, causing macroeconomic instability and reducing private investment. Thirdly, global market uncertainty excludes many developing countries from access to private capital flows, and subjects others to destabilizing volatility in flows. Fourthly, the inability of capital markets to work out debt burdens in response to insolvency imposes a long-term resource burden on poorer countries and further reduces their attractiveness to foreign investors. Finally, the more vulnerable developing countries become subject to policy conditionality that goes beyond ensuring that international obligations are met to the imposition of socially unsustainable fiscal stances.

The problems to be faced by a global financial regulator today have two dimensions: the provision of liquidity as a "lender of the last resort" to smooth temporary fluctuations in market sentiment on the one hand, and the establishment of an orderly financial market by prudential regulation of the financial intermediaries on the other.

The role of a global lender of the last resort is reflected in the current proposal by the IMF to create a new "short-term financing facility" (STFF). This facility could be disbursed very rapidly to counter swings in market sentiment, which do not reflect economic fundamentals, and speculative pressures. Coverage under the Camdessus proposal would be limited to some 50 (mainly upper middle-income) countries which have a high degree of involvement in the international capital market. The terms of access would be based on specific "drawing right" provisions made under the regular Article IV consultation, in cases where the Fund determines that country has a sound policy record and no fundamental balance-of-payments problem. The facility could be made automatic and thus very rapid, although at some risk that the funds may be used to finance capital flight. The level of access (which could be arranged in tranches) would need to be commensurate with potential reserve losses and could reach 300 per cent of a country's quota.

The proposed facility could be financed from the Fund's normal resources—perhaps by activating General Arrangements to Borrow (GAB). This would, however, imply confining access to the established rules for standby and extended arrangements. Ideally, the resources required for this purpose should be provided by new issues of Special Drawing Rights (SDRs)—a standing proposal since the original Bretton Woods Conference. This method would require modification of Article XVIII, which requires SDRs to be allocated *pro rata* to existing quotas.

If the conversion of SDRs into a global fiduciary reserve asset is not acceptable to the more conservative members of the G7, the IMF could borrow on international financial markets. As in the case of the World Bank, the willingness to subscribe would not arise from the quality of IMF assets (i.e. STFF loans) but rather from their underwriting by the G3. The speed of intervention is crucial in such cases, and thus

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automatic access on country request (or at most on approval by Fund executives) would be necessary—which would effectively disenfranchise the Executive Board. Thus, the quality of the Fund's technical assessment would be crucial both in overcoming the problem itself and in restoring market confidence.

At first sight, the recent Mexican crisis seems to provide a good example of the potential use of such a STFF: the initial IMF access of $7.8 billion offered to Mexico was already three times quota, but this was rapidly raised to $17.8 billion. Although this appeared insufficient for the rescue plan, it was widely regarded at the time as an impressive display of flexibility by the Fund faced by a systemic threat to world capital markets. However, in retrospect the episode can be seen as evidence of the continued power of the United States Treasury to change the unwritten rules in support of US investors, while the nature of the operation (refinancing Mexican treasury bills) was such that medium-term rather than short-term resources were clearly needed.

A logical complement to discretionary intervention in order to compensate for market failure *ex post* is the reorganization of markets themselves so as to reduce the likelihood of such failure *ex ante*. The rapid development of international financial markets in recent years has had a paradoxical consequence. On the one hand, the increased marketability of assets has led to increased liquidity—thus decreasing the need for access to official borrowing in the case of most middle-income countries and many of the larger low-income ones, such as India and China. On the other hand, this liquidity has increased systemic risk because collapse or insolvency can be rapidly transmitted from one market or institution to another. This problem is particularly acute where regulatory systems have incomplete coverage or overlap in an inconsistent manner, thus creating opportunities for speculative profits.

From the point of view of developing countries, there are further problems: the need for greater investor protection and incentives to encourage longer-term investment; the threat of contagion from default in the region spreading to other neighbours; and the additional macroeconomic instability caused by fluctuations in narrow and shallow domestic security markets which attract foreign capital inflows. Above all, the maintenance of stable access to international capital markets is crucial—particularly under conditions of exogenous shocks—in order to permit high levels of investment.

In marked contrast to the IMF, the BIS aims to maintain payment systems, i.e. prudential regulation rather than provision of liquidity. This aspect is becoming more important as international capital flows shift from public to private sectors. The object of the BIS in practice is to curb excessive risk-taking by lenders *ex ante* through regulations concerning the asset portfolios of financial intermediaries. Although it does act as a coordinator of leading central banks in crisis situations, the Bank does not make loans itself except in the form of bridging finance.

At present the Basle rules on capital adequacy refer only to banks, although the BIS sees a clear need to extend them to securities firms, to clearly define the jurisdictions of national regulators and to define the role of internal risk management systems. This is a particular problem because national deposit insurance and lender-of-last-resort facilities are normally only available to banks. Hence, other intermediaries are more exposed to the risk of collapse. There is also a marked trend towards allowing supervisory recognition of an institution's internal market risk management model in order to cope with derivative trading and complex portfolios—which the traditional capital adequacy rules cannot do. In contrast, the European Commission's Capital Adequacy Directive of 1993 applies to both credit institutions and securities firms, and takes certain unsettled obligations explicitly into account.

Although the integration of financial supervision systems within the United States and the European Union are both currently under way, only the latter can as yet provide a model for eventual global arrangements. Unfortunately, the other line of advance, that of international coordination between domestic security regulators (through the International Organization of Securities Commissions) has made little progress in establishing a parallel for securities firms to what the Basle accord has done for banking—mainly because of disagreement between the United States and 50 other member countries. In contrast, considerable progress has been made by OECD countries towards the harmonization of regulations on direct foreign investment, although this is unlikely to be extended under the WTO umbrella because of the unwillingness of developing countries to liberalize as quickly as industrialized ones.

Global central banking, as the backdrop for IMF reform, thus requires a combination of crisis intervention and prudential regulation—not just the provision of liquidity as a lender of the last resort. Besides, liquidity in a complex global capital market is more a matter of asset preference than one of money supply as such. Either intervention or regulation is relatively ineffective without the other, so at the very least closer coordination between the IMF and the BIS is clearly necessary. The provision of the basis of an orderly market is a public good, but one which provides a strong incentive to participants in the form of the cost of exclusion.

Developing countries probably have more to gain from a rule-based system than from a discretionary one. Although the latter allows their special circumstances to be recognized in a crisis, the former would recognize them as partners in a global system. Establishing global rules is difficult, as the experience of the Uruguay Round indicates, and there may appear to be some operational benefit from establishing systems in particular regions. In the case of capital markets, however, an incomplete system is an invitation to speculation and evasion.

Setting up a structure of surveillance and early warning in order to monitor and respond to emerging crises is essential. However, it is not entirely clear whether the IMF in its present form is the best institution to do this. It cannot conduct the kind of open-market operations or impose the temporary administrative regulation of capital flows required in international emergencies. Nor can it conduct prudential regulation of lending institutions to prevent losses on unsafe asset portfolios leading to systemic risks.

NOTES ON OTHER MEETINGS AND EVENTS

ADVANCE CARGO INFORMATION SYSTEM (ACIS) EXPANDS IN AFRICA

UNCTAD and the Systems Branch of SPOORNET (South African Railways) have recently reached a strategic understanding to collaborate in the development and installation of an integrated cargo system, covering the nine railways which comprise a common network in the Southern African subregion. UNCTAD will ensure this collaboration through the railway module of its Advance Cargo Information System (ACIS), called RailTracker. ACIS is a computer-based information system, developed by UNCTAD, which tracks transport equipment and cargo. It comprises standard tracking modules specific to all surface modes and interfaces—ports, railways, roads and lakes—which are customized to a country's needs. These modules are connected by a Backbone Information System (BIS), which will also link each country in the subregion, thus enhancing regional integration. With financial resources made available by the European Commission, UNCTAD is installing the System in six Eastern African countries, members of the Common Market of Eastern and Southern Africa (COMESA), and in a number of Central Asian countries. The German and French Governments are also making financial contributions for the development of the System in other parts of Africa and Asia.

CONFERENCE ON OIL MARKETING, RISK MANAGEMENT AND FINANCE IN SUB-SAHARAN AFRICA (Harare, 15-17 April 1996)

The Conference, organized by UNCTAD in cooperation with the Eastern and Southern African Trade and Development Bank, brought together major players in sub-Saharan Africa in the areas of oil and finance. The objective of the meeting was to contribute to improving oil trading, risk management and financing practices in Africa's oil sector. Studies have shown that African countries can make major savings through improving these practices; importers alone could save over US$ 500 million a year. The Conference was held with the financial support of the Government of the Netherlands and with assistance from the private sector.

TENTH ANNUAL CONSULTATION BETWEEN UNCTAD AND TRADE UNIONS (Geneva, 15 June 1996)

The Consultation, organized by UNCTAD, was attended by around 30 representatives from major international trade unions, including the International Federation of Free Trade Unions (ICFTU), the World Confederation of Labour (WCL), the All-China Federation of Trade Unions (ACFTU), the World Federation of Trade Unions (WFTU) and the Organization of African Trade Union Unity (OATUU). The International Labour Office also participated. Trade union representatives were briefed by UNCTAD staff members on the outcome of UNCTAD IX in the areas of privatization, investment policies and trade. The issues relating to the social clause, labour standards and international trade were also discussed. Trade unions had the occasion to inform the UNCTAD secretariat on their positions on these issues, and stressed that they would have wished UNCTAD IX to have been more precise on the mandate of the organization on the links between labour standards and international trade. A more detailed article on the debate that took place during the Consultation will be published in the next issue of the *UNCTAD Bulletin*.

SEMINAR ON INSURANCE IN CHINA (Beijing, 20-24 May 1996)

A hundred-and-fifty delegates from all Provinces of China, representing the insurance industry, attended the seminar to learn about new practices from international insurance, reinsurance, insuring against catastrophe, engineering insurance, liability insurance and use of information technology in insurance. The seminar was organized as part of UNCTAD's Programme on Insurance, in cooperation with the Ministry of Foreign Trade and Economic Cooperation and the People's Insurance Company of China, and was sponsored by the Grand Duchy of Luxembourg. Fifteen experts from top insurance, reinsurance and information technology companies addressed the delegates. China's international insurance business is the fastest expanding sector. The premiums in 1993 reached US$ 4277m, compared with US$ 342 in 1992. China's interaction with foreign insurers is expected to develop significantly over the years.

NGO NEWS[1]

WORKING CONFERENCE ON COMMODITIES (Amsterdam, 26 September 1996)

The Dutch NGOs—INZET, Fair Trade Organisatie, Max Havelaar Foundation and the Association of World Shops—are organizing a one-day Working Conference on the position of African producers of agricultural commodities, which aims to mobilize expertise for a thorough debate on how to define a renewed political agenda on agricultural commodities. The meeting is intended to help set up a new agenda to offer a lobbying programme for both African and European NGOs. Discussion will focus on the following aspects: structural adjustment and the competitiveness of Africa, empowerment of producers, fair and stable prices, income stabilization, and diversification. Those interested may contact INZET, Keizersgracht 132, 1015 Amsterdam (tel. 020-627 3339; fax. 020 627 3839) for further information.

1 UNCTAD welcomes news on NGO activities relevant to the work of the organization for possible publication in the *UNCTAD Bulletin*.

RECENT UNCTAD PUBLICATIONS AND MULTIMEDIA

1. Annotated list

GLOBALIZATION MYTHS: SOME HISTORICAL REFLECTIONS ON INTEGRATION, INDUSTRIALIZATION AND GROWTH IN THE WORLD ECONOMY—Paul Bairoch & Richard Kozul-Wright
UNCTAD Discussion Paper, No. 113, March 1996

It has become popular to draw a parallel between current globalization trends and the half century of international economic integration before the First World War. Indeed, some writers suggest that current trends mark a return to this earlier period, from which they draw strong conclusions about growth prospects and convergence associated with globalization. This paper assesses this historical parallel. It accepts that many features of today's international economy are not unique. However, it is sceptical of efforts to make a direct parallel with the earlier period. In particular, the paper shows that the period before 1913 was not one of trade liberalization, nor one of reduced expectations about the role of the State, and suggests that rapid industrial growth in some economies cannot be explained by globalization pressures. More generally, a description of this earlier period of globalization as one of rapid growth and convergence is questioned, and instead is associated with uneven economic development, during which a small group of countries were able to reinforce their domestic growth efforts through links to the international economy, while for others these same links did little to alter long-term growth prospects. In some cases they even hindered them.

JAPANESE FINANCIAL DEREGULATION SINCE 1984 — Rameshwar Tandon
UNCTAD Discussion Paper, No. 114, April 1996

The year 1984 was an epoch-making period for Japanese markets. The liberalization following the United-States-Japan Agreement was very sweeping indeed. Early liberalization measures related to liberalization of interest rates and abolition of formally prescribed business boundaries. Next came the deregulation of "new" products and opening of financial business to non-financial firms. As new financial instruments opened up the possibilities of arbitrage, the system of controlled rates in the money markets was discontinued and a free-bills market developed. In recent years, the growth of secondary trading in government bonds has been quite extraordinary. The Bank of Japan has fostered the growth of short-term money markets, beneficial to open-market operations. Moreover, owing to the liberalization of interest rates, there has been flexible determination of bank-lending rates.

CONTROLLING AGRICULTURAL NONPOINT SOURCE POLLUTION: THE CASE OF MINERAL BALANCES — Jussi Lankoski
UNCTAD Discussion Paper, No. 116, June 1996

The paper reviews environmental policy instruments for controlling agricultural nonpoint source pollution, and examines criteria for evaluating environmental policy instruments in agriculture. Mineral balance calculations and corresponding nutrient utilization rates show that nutrient losses from animal husbandry farms exceed those of cereal farms. Cost efficiency was used as the criterion for evaluating two economic instruments for abating nitrogen leakages from cereal farms: a fertilizer tax and an effluent tax based on mineral balances. The marginal abatement cost was calculated by dividing the change in profit by the change in reduced leakages; thus, in order to estimate the marginal abatement cost, the leakage function is needed. The effluent tax showed on average higher cost efficiency than the fertilizer tax when abatement levels were between 10 and 30 per cent. The cost efficiency of the instruments, however, seems to be sensitive to initial leakage levels. The fertilizer tax exhibited lower marginal abatement costs for farms with the highest initial leakage levels. It is important to note that the cost efficiency criterion used in the study does not include the administrative costs of monitoring and enforcement. These costs are likely to be high in implementing an effluent tax, which would make the fertilizer tax a more appropriate instrument.

INCENTIVES AND FOREIGN DIRECT INVESTMENT
United Nations publications (98 pp.)
Sales No. 96.II.A.6 (US $25)

This study proposes ways to limit competition in providing incentives to attract FDI. It surveys FDI incentives programmes in over 100 countries from all regions. The overall number and range of incentives available to foreign investors and the number of countries that offer incentives, have increased considerably since the mid-1980s. In fact, international competition for FDI with fiscal, financial and other incentives is pervasive, and it is even more intense now than some ten years ago. The study proposes that the effectiveness of national programmes for the provision of incentives should be reviewed. UNCTAD's suggested programme of action could involve initiatives at the national, bilateral and regional levels. The study concludes that, as the international community has begun to deal successfully with subsidies that distort trade, it may be possible to make, step by step, similar progress towards dealing with incentives that distort international investment flows.

INTERNATIONAL MONETARY AND FINANCIAL ISSUES FOR THE 1990s
United Nations publication (98 pp.)
Vol. VII, Sales No. E.96.II.D.2 (US$ 22)

A companion volume to the previous six already reviewed in past issues of the *UNCTAD Bulletin*, this publication contains the following seven research papers prepared for the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G24):

- A new facility for the IMF?
  John Williamson
- Allocation of special drawing rights: The current debate
  Ariel Buira and *Roberto Marino*
- The case for multilateral debt relief for severely indebted countries
  Chandra Hardy
- Global financial system reform and the C-20 process
  Azizali F. Mohammed
- A critique of the World Development Report 1994: Infrastructure for development
  Raisuddin Ahmed
- Labour issues in the World Development Report - A critical assessment
  Dipak Mazumdar
- The Uruguay Round—Cost and compensation for developing countries
  Ann Weston

EXPANSION OF TRADING OPPORTUNITIES TO THE YEAR 2000 FOR ASIA-PACIFIC DEVELOPING COUNTRIES
United Nations publication (692 pp.)
Sales No. GV.E.96.0.7 (US$ 50)

Expansion of Trading Opportunities to the year 2000 for Asia-Pacific Countries: Implications of the Uruguay Round Results and Consequent Adaptation of Export Strategies is a comprehensive volume compiling studies presented to a high-level workshop, held in Subic Bay (Philippines), November 1995, which was organized by UNCTAD in collaboration with the Bureau of Export Trade Promotion and the Subic Bay Metropolitan Authority of the Philippines and with the financial support of the UNDP. The publication is divided into four parts: Part I provides an overview of the implications of results of the Uruguay Round for market access by Asia-Pacific countries; Part II contains studies on the export opportunities and challenges in selected sectors; Part III contains country studies reviewing the industrial and trade policy adjustments needed to take advantage of new trading opportunities as well as conform to the provisions of the UR Agreements; Part IV contains conclusions and recommendations.

THE LEAST DEVELOPED COUNTRIES—1996 REPORT
United Nations publication
(113 pp. and Statistical Annex of 90 pp.)
Sales No. E.96.II.D.3 (US$ 55)

The main theme of the 1996 Report is the impact of globalization and liberalization on the least developed countries (LDCs). Growth in world trade is expected to be robust over the next decade and significant growth in non-traditional export markets may provide LDCs with opportunities to diversify export earnings away from their traditional primary products. In the short term, however—mainly because of their weak supply capacities—the processes of globalization and liberalization threaten to accentuate the marginalization of these economies, as is manifested in a range of development indicators. The Report warns that, faced with intensified competition, LDCs may suffer a further erosion of their share of world export markets and a possible loss of domestic market share. LDCs' growth rates have lagged well behind those of other developing countries since the early 1970s. The LCDs' share of world trade has fallen sharply—from 1.7 per cent of both world exports and imports in 1970 to 0.4 per cent and 0.7 per cent of exports and imports, respectively, in 1994. The LDCs have attracted a negligible share of foreign direct investment flows to developing countries. They have achieved very little structural change and remain heavily dependent upon primary commodities for export earnings and on official development assistance to finance a large share of their investments and government budgets.

Responding to the challenges posed by the processes of globalization and liberalization will require major adjustments in economic policies, resource allocation and production structures in the LDCs. The Report stresses that the adjustment efforts require more support from the international community.

Such support should take the form of adequate levels of concessional assistance to finance the infrastructural and social development programmes of LDC governments, and to provide balance-of-payments and budgetary support for facilitating economic reform programmes. On a brighter note, the Report indicates that after several years of stagnation in their economies, the LDCs displayed modest progress in 1994 and 1995, with an estimated real GDP growth averaging over 3 per cent. The Report indicates that there has been a marked improvement in the growth rates of African LDCs, which are estimated to have attained an average growth of 2.2 per cent in 1995, while Asian LDCs recorded an estimated growth of 4.6 per cent.

2. Information on UNCTAD available through Internet and CD-ROM

UNCTAD PRESS RELEASES

UNCTAD press releases in general are available on Internet at **http://www.unicc.org/unctad/**.

UNCTAD IX: FINAL OUTCOME

Information on the ninth session of UNCTAD is also available on Internet at **http://www.unicc.org/unctad/**, which contains the final outcome of the Conference, as contained in document TD/377 entitled "Midrand Declaration and A Partnership for Growth and Development". Some important documents issued prior to or during the Conference, *inter alia*, the "Report of the Secretary-General of UNCTAD to the ninth session of the Conference— Globalization and liberalization" (TD/366), the Ministerial Declaration of the Group of 77 (TD/372) and the Ministerial Declaration of the LDCs (TD/373) are also available on Internet.

More up-to-date information on the implementation of decisions adopted by UNCTAD IX will be provided on Internet, in particular regarding the functioning of the organization's three new Commissions—which will commence their activities after the executive session of the Trade and Development Board, to be held on 8 July 1996.

TECHNICAL ASSISTANCE

Information on UNCTAD's technical cooperation programmes (included in document UNCTAD/PSMS/-TCP/1/Rev.1, entitled "Meeting the Development Challenge") is available on Internet at http://www.unicc.org/-UNCTAD/en/techcop.

TRAINS

UNCTAD has produced the third issue of its TRAINS CD-ROM, the most comprehensive interactive library existing on trade information and its analysis. This disc contains: 70 volumes of recent tariff schedules, of which 58 also offer information on para-tariff measures; 49 UNCTAD publications on non-tariff measures; about a hundred schedules with historical data on tariff and non-tariff measures; and more than a hundred volumes with detailed import statistics by origin on 48 countries. The Trade Analysis and Information System (TRAINS) increases transparency in international trading conditions. National and regional focal points are being supplied with TRAINS on CD-ROM and also serve as a channel through which UNCTAD obtains recent information on tariffs and trade, as well as documentation on para-tariff and non-tariff measures. Beyond the focal points, the TRAINS CD-ROM is available to other parties that make a minimum contribution to the UNCTAD Trust, created for this purpose. This contribution is US$ 625 for private enterprises in the least developed countries, US$ 1,250 for those in developing countries, and US$ 2,500 for those in developed countries. These contributions are halved for non profit-making organizations.

3. Other publications

- Guide to UNCTAD publications, 1994 (UNCTAD/-GP(94)1)
- Promoting growth and sustainable development in a globalizing and liberalizing world economy (TD/367)
- Midrand Declaration and a partnership for growth and development adopted by UNCTAD IX (TD/377)
- Report of the Trade and Development Board on its twelfth executive session (TD/B/EX(12)/2)
- Report of the Intergovernmental Group of Experts on Ports, second session (TD/B/CN.4/57)
- New types of non-trade-related participation in commodity futures markets (UNCTAD/COM/83)
- Review of progress in trade-finance facilities of developing countries at the interregional, regional and subregional levels (UNCTAD/ECDC/254)
- Cases of interfacing between national economic policies and regional and subregional cooperation (UNCTAD/ECDC/255)

Sales publications

- *Transnational Corporations*, Vol. 4, No. 3, Dec. 1995 (UNCTAD/DTCI/18)
- *Administration of Fiscal Regimes for Petroleum Exploration & Development*—Sales No. E.95.II.A.8
- *Comparative Analysis of Petroleum Exploration Contracts*—Sales No. E.96.II.A.7
- *Incentives and Foreign Direct Investment*—Sales No. E.96.II.A.6
- *Science and Technology in the New Global Environment: Implications for Developing Countries*-Sales No. E.95.II.D.14
- *Fostering Technological Dynamism: Evolution of Thought on Technological Development Processes and Competitiveness—A Review of the Literature*-Sales No. E.95.II.D.21
- *New Technologies and Technological Capability-Building at the Enterprise Level: Some Policy Implications*—Sales No. E.95.II.D.24
- *Emerging Forms of Technological Cooperation: The Case for Technology Partnership*—Sales No. E.96.II.D.1

Note to readers of the *UNCTAD Bulletin*

UNCTAD publications may be obtained from the following addresses:

- ***Sales publications***: United Nations Sales Office, Geneva or New York.
- ***Sessional documents***: Reference Unit, UNCTAD, Palais des Nations, CH-1211 Geneva 10.
- ***Discussion Papers***: Editorial Assistant, UNCTAD, Geneva.

STATEMENT BY SG OF UNCTAD AT ECOSOC

(continued from page 9)

among developing and developed countries for the achievement of the goal of promoting growth and development with equity and social justice, giving special attention to LDCs and Africa. An important dimension added to the concept of partnership was the decision to extend it to the private business sector, NGOs, research centres and civil society as a whole. UNCTAD IX 's agenda was about globalization, its promise of growth and prosperity and the risk that it could add to the marginalization of certain countries and economic sectors. Globalization carries with it contradictory features, causing both optimism and fears. There are very tangible reasons for the absence of a popular "feel good" factor with respect to globalization. The reasons are well known: job insecurity, exacerbation of competition, downsizing and rising unemployment. Mr. Ricupero concluded that it is the responsibility of governments and international organizations to communicate faith and provide hope through action to promote growth, jobs and equality of opportunities. We must give people reasons to believe in the future and, in our case, that there is life after globalization.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 188 member States, including the 185 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. As part of the restructuring of the economic and social sectors of the Secretariat of the united Nations, the General Assembly in April 1993 approved the transfer to UNCTAD of a number of activities previously carried out by the former Centre on Transnational Corporations and the former Centre for Science and Technology The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 450 and is headed by a Secretary-General.

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